

**NEW ISSUE  
BOOK ENTRY ONLY**

Moody's: Aa3  
Standard & Poor's: AA-  
Fitch IBCA: AA-  
(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1998 Bonds (as defined herein) is excludable for federal income tax purposes from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended. Such exclusion is conditioned on continuing compliance with the Tax Covenants (as defined herein). In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1998 Bonds is exempt from income taxation in the State of Indiana. See Appendix D for the form of opinion of Bond Counsel. See "TAX MATTERS."

**\$93,020,000  
INDIANA STATE OFFICE BUILDING COMMISSION  
FACILITIES REVENUE REFUNDING BONDS  
SERIES 1998A**

Dated: January 1, 1998

Due: July 1, as shown below

The Facilities Revenue Refunding Bonds, Series 1998A (the "1998 Bonds"), are being issued by the Indiana State Office Building Commission (the "Commission") to refund the Commission's outstanding Correctional Facilities Program Revenue Bonds, Series 1991 (the "1991 Bonds"), the proceeds of which were applied to finance a portion of the acquisition, design, construction and equipping of certain facilities ("Facility No. 1") which are leased to the State of Indiana (the "State"), acting by and through its Department of Administration (the "Department of Administration"), pursuant to Use and Occupancy Agreement No. 1 (as defined herein) between the Commission and the Department of Administration.

The 1998 Bonds are being issued pursuant to a Trust Indenture between the Commission and NBD Bank, N.A. (successor by merger to INB National Bank), Indianapolis, Indiana, as trustee (the "Trustee"), dated November 1, 1991, as amended, restated and supplemented as of January 1, 1998 and as further amended and supplemented by a Series 1998A Supplemental Trust Indenture, dated as of January 1, 1998 (collectively, the "Indenture").

Interest on the 1998 Bonds is payable on July 1, 1998, and semiannually on each January 1 and July 1 thereafter. The 1998 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the 1998 Bonds may be made in book-entry-only form in the denomination of \$5,000 or any integral multiple thereof, and purchasers of the 1998 Bonds will not receive physical delivery of certificates representing their interest in the 1998 Bonds. See "DESCRIPTION OF THE 1998 BONDS—General Description," and "—Book-Entry-Only System."

The 1998 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 1 that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 1. Pursuant to Use and Occupancy Agreement No. 1, the 1998 Bonds rank on a parity basis with the Commission's Correctional Facilities Program Revenue Bonds, Series 1995A, dated as of July 1, 1995, outstanding as of the date of this Official Statement in the principal amount of \$54,025,000 (the "1995A Bonds"). The 1991 Bonds and the 1995A Bonds were issued for the purpose of financing the cost of the acquisition, design, construction and equipping of Facility No. 1. Such income and revenues will be derived primarily from rental payments to be received by the Commission from the Department of Administration under Use and Occupancy Agreement No. 1. The 1998 Bonds do not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The 1998 Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption, all as more fully described herein. See "DESCRIPTION OF THE 1998 BONDS—Redemption."

**MATURITY SCHEDULE**

Year	Principal Amount	Interest Rate	Price or Yield	Year	Principal Amount	Interest Rate	Price or Yield
2001	\$2,150,000	3.90%	100%	2002	\$2,265,000	5.00%	4.00%
2002	2,000,000	4.00	100	2003	910,000	5.00	4.05
2003	3,545,000	4.05	100	2004	2,770,000	5.00	4.15
2004	1,875,000	4.15	100	2005	2,500,000	5.00	4.25
2005	2,360,000	4.25	100	2006	4,585,000	5.50	4.30
2006	500,000	4.30	100	2007	3,165,000	5.50	4.35
2007	2,200,000	4.35	100	2008	4,545,000	5.50	4.40
2008	1,090,000	4.40	100	2009	5,120,000	5.00	4.50
2009	810,000	4.50	100	2013	7,040,000	5.00	101.731
2010	6,225,000	4.60	100	2014	7,495,000	5%	102.375
2011	6,510,000	4.70	100				
2012	6,815,000	4.75	100				
2013	100,000	4.75	4.80				
2015	7,880,000	4.90	100				
2016	8,265,000	4.90	4.95				

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 1998 Bonds are being offered when, as and if issued by the Commission and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Ice Miller Donadio & Ryan, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Commission by the Attorney General of the State, counsel to the Commission and for the Underwriters by Bingham Summers Welsh & Spilman, Indianapolis, Indiana, Underwriters' Counsel. It is expected that the 1998 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about February 18, 1998.

**MORGAN STANLEY DEAN WITTER**

FIRST CHICAGO CAPITAL MARKETS  
RAYMOND JAMES & ASSOCIATES, INC.

J.J.B. HILLIARD, W.L. LYONS, INC.  
ROBERT W. BAIRD & CO. INCORPORATED

**GOLDMAN, SACHS & CO.**

NATCITY INVESTMENTS, INC.  
SIEBERT BRANDFORD SHANK & CO. LLC  
A division of Muriel Siebert & Co., Inc.

Dated: January 23, 1998

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**INDIANA STATE OFFICE BUILDING COMMISSION**

**MEMBERS**

**GOVERNOR - FRANK O'BANNON, Chairman**

**LIEUTENANT GOVERNOR - JOSEPH E. KERNAN, Vice-Chairman**

**STATE BUDGET DIRECTOR - PEGGY BOEHM, Secretary**

**TREASURER OF STATE - JOYCE BRINKMAN, Treasurer**

**AUDITOR OF STATE - MORRIS WOODEN**

**COMMISSIONER, DEPARTMENT OF ADMINISTRATION - BETTY COCKRUM**

**ELEANOR F. BOOKWALTER**

**KENNETH L. DeLAP**

**KEITH G. HEDINGER**

**KIPPER TEW**

**ROBERT BATTEAST**

**MYRON FRASER**

**BRAD CHAMBERS**

**Susan Williams  
Executive Director**

**Joe Wiesinger  
Chief Deputy Director**

**INDIANA DEPARTMENT  
OF ADMINISTRATION**

**Commissioner  
Betty Cockrum**

**INDIANA DEPARTMENT  
OF CORRECTION**

**Commissioner  
Edward L. Cohn**

No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the Commission or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of any of the 1998 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State, the Commission and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. The information, estimates and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 1998 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission or any person described herein subsequent to the date as of which such information is presented.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1998 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 1998 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission in Securities and Exchange Commission Rule 15c2-12, as amended, the Commission will enter into a Continuing Disclosure Undertaking Agreement with NBD Bank, N.A., as the counterparty. For a description of the Continuing Disclosure Undertaking Agreement, see "CONTINUING DISCLOSURE."

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**\$93,020,000**  
**INDIANA STATE OFFICE BUILDING COMMISSION**  
**Facilities Revenue Refunding Bonds**  
**Series 1998A**

**INTRODUCTION**

The purpose of this Official Statement (including the cover page and appendices) is to provide information about the Indiana State Office Building Commission (the "Commission") and the offering of the Commission's Facilities Revenue Refunding Bonds, Series 1998A (the "1998 Bonds"). The 1998 Bonds are being issued pursuant to (i) Indiana Code 4-13.5 (the "Act"), (ii) the Indenture (hereinafter defined) and (iii) a resolution adopted by the Commission on December 10, 1997. The Act empowers the Commission to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition, construction and equipping of a Facility (hereinafter defined) or for the purpose of refunding bonds of the Commission. See "INDIANA STATE OFFICE BUILDING COMMISSION--Facilities Program."

**Plan of Finance**

The 1998 Bonds are being issued under a Trust Indenture between the Commission and NBD Bank, N.A. (successor by merger to INB National Bank), Indianapolis, Indiana, as trustee (the "Trustee"), dated November 1, 1991 as amended, supplemented, and restated as of January 1, 1998 and as further amended and supplemented by a Series 1998A Supplemental Trust Indenture, dated as of January 1, 1998 (collectively, the "Indenture"). The Trustee will also serve as bond registrar (the "Bond Registrar") and paying agent (the "Paying Agent") for the 1998 Bonds (the Trustee, the Bond Registrar, the Paying Agent and any authorized depository under the Indenture, collectively, the "Fiduciaries").

The Commission has previously issued under the Indenture (i) its Correctional Facilities Program Revenue Bonds, Series 1991, dated November 1, 1991 which, prior to the issuance of the 1998 Bonds, were outstanding in the principal amount of \$93,915,000, (the "1991 Bonds") and (ii) its Correctional Facilities Program Revenue Bonds, Series 1995A, dated July 1, 1995, currently outstanding in the principal amount of \$54,025,000 (the "1995A Bonds" and along with the 1998 Bonds, hereinafter referred to as the "Facility No. 1 Bonds") for the purpose of financing the costs of acquisition, design, construction and equipping of a maximum security correctional facility and a medium security correctional facility in Sullivan County, Indiana (collectively, "Facility No. 1"). The Facility No. 1 Bonds are secured exclusively by the payments to be made under Use and Occupancy Agreement No. 1 (hereinafter defined). See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

The Commission has also previously issued under the Indenture and separately secured under Use and Occupancy Agreement No. 2 (hereinafter defined), its Correctional Facilities Program Revenue Bonds, Series 1995B, dated September 15, 1995, currently outstanding in the principal amount of \$47,975,000 (the "1995B Bonds" or "Facility No. 2 Bonds") for the purposes of financing the acquisition, design, construction, renovation and equipping of a women's correctional facility in Parke County, Indiana ("Facility No. 2"). The 1991 Bonds, 1995A Bonds and 1995B Bonds are hereinafter collectively referred to as the Prior Bonds ("Prior Bonds").

The Indenture amends, restates and supplements the Trust Indenture dated as of November 1, 1991 which, as amended and supplemented prior to the date hereof, is referred to as the "Existing Indenture." A summary of the material amendments made to the Existing Indenture by the Indenture is set forth under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--Amendments to the Existing Indenture". The owners of the 1998 Bonds will be deemed to consent to these amendments by their acceptance of the 1998 Bonds. Upon certain required filings, these amendments will be effective.

The 1998 Bonds are being issued to (i) refund in advance of their stated maturity dates all of the currently outstanding 1991 Bonds and (ii) pay the costs of issuance of the 1998 Bonds. See "PLAN OF FINANCE," and "SOURCES AND USES OF FUNDS".

**Security and Sources of Payment for the 1998 Bonds**

The 1998 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 1 that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 1. Pursuant to the Use and Occupancy Agreement for Facility No. 1, as described herein ("Use and Occupancy Agreement No. 1."), the 1998 Bonds rank on a parity basis with the Series 1995A Bonds. Such income and revenues will be derived primarily from rental payments to be received by the Commission from the Department of Administration of the State of Indiana ("State") under Use and Occupancy Agreement No. 1. The 1998 Bonds do not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision

thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Act prohibits rentals from being paid under Use and Occupancy Agreement No. 1 until Facility No. 1 is constructed or a portion thereof has been completed and such facility or portion thereof is available for use and occupancy by the Department of Administration. As of the date of this Official Statement, Facility No. 1 has been declared ready for use and occupancy and rentals under Use and Occupancy Agreement No. 1 are being paid. See "INDIANA STATE OFFICE BUILDING COMMISSION--Facilities Program." The payment of rentals pursuant to Use and Occupancy Agreement No. 1 are and will be subject to and dependent upon funds having been appropriated by the General Assembly of the State and being available for such purpose. The Department of Administration is not obligated to pay for the use and occupancy of Facility No. 1, but the Department of Administration is required to vacate Facility No. 1 if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities thereby afforded. If the Commission is not receiving rentals from the Department of Administration for Facility No. 1 pursuant to Use and Occupancy Agreement No. 1, sufficient funds may not be available to pay debt service on the Facility No. 1 Bonds on a full and timely basis. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Under the Indenture, one or more series of (i) additional bonds ("Additional Bonds") may be issued to pay all or a portion of the Acquisition Costs (as defined in Appendix C) of an additional Facility or portion thereof ("Additional Facility") and along with Facility No. 1 and Facility No. 2, collectively referred to as, the "Facilities") or (ii) refunding bonds ("Refunding Bonds") may be issued to refund all or a portion of any then outstanding Facility No. 1 Bonds, Facility No. 2 Bonds or Additional Bonds. The 1998 Bonds, Prior Bonds, Additional Bonds and any Refunding Bonds issued pursuant to the Indenture are hereinafter collectively referred to as, the "Bonds"). See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Additional Bonds" and "--Refunding Bonds" in Appendix B.

### **The 1998 Bonds**

Interest on the 1998 Bonds is payable on July 1, 1998, and semiannually on each January 1 and July 1 thereafter. The 1998 Bonds will be issued in fully registered form in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") in the denomination of \$5,000 or any integral multiple thereof. See "DESCRIPTION OF THE 1998 BONDS."

The 1998 Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption, all as more fully described herein. See "DESCRIPTION OF THE 1998 BONDS--Redemption."

### **The Official Statement**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Introduction is only a brief description and a full review should be made of this entire Official Statement (including the cover page and appendices), as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. The Commission does not certify as to the accuracy or sufficiency of the disclosure practices of or content provided by DTC and is not responsible for the information under the caption "DESCRIPTION OF THE 1998 BONDS--Book-Entry-Only System." Definitions of certain words and terms used in this Official Statement are set forth in Appendix C.

## **PLAN OF FINANCE**

### **Prior Obligations**

The Commission issued the 1991 Bonds on December 5, 1991 in the original aggregate principal amount of \$102,015,000. Prior to the date of issuance of the 1998 Bonds, \$93,915,000 of the 1991 Bonds were outstanding, all of which will be advance refunded with a portion of the proceeds from the 1998 Bonds.

### **Provision for Payment of the Refunded Bonds**

A portion of the proceeds of the 1998 Bonds will be used by the Authority to provide funds in an amount sufficient to refund in advance of their stated maturity dates all of the outstanding 1991 Bonds (the "Refunded Bonds").

In order to accomplish the advance refunding of the Refunded Bonds, a portion of the proceeds of the 1998 Bonds will be used to purchase non-callable direct obligations of the United States of America (the "Defeasance Obligations"), which will be deposited with and held by NBD Bank N.A., Indianapolis, Indiana, as escrow trustee (the "Escrow Trustee") in a separate trust fund created pursuant to the terms of a separate Escrow Deposit Agreement (the "Escrow Agreement"), dated as of January 1, 1998.

The Defeasance Obligations held by the Escrow Trustee under the Escrow Agreement will be in an aggregate principal amount that, together with interest to be earned thereon and an initial cash deposit, will be sufficient (a) to pay when due the principal and interest payments for the 1991 Bonds maturing on July 1, 1998 through and including July 1, 2001, and (b) to redeem on December 1, 2001, the 1991 Bonds that were to mature on and after July 2002, at the principal amount thereof plus accrued interest to the redemption date plus a premium of two percent of the principal amount thereof. After the deposit of such Defeasance Obligations and cash with the Escrow Trustee in the separate trust fund created pursuant to the Escrow Agreement, the principal and redemption price of and interest on the Refunded Bonds will be payable solely from said trust fund; the holders of the Refunded Bonds will not be entitled to nor have any rights with respect to any security granted by the Indenture; and the Refunded Bonds will be redeemed on the dates set forth above pursuant to the irrevocable instructions given to the Trustee.

### SOURCES AND USES OF FUNDS

Set forth below is a summary of the estimated sources and uses of funds (exclusive of accrued interest) in connection with the issuance of the 1998 Bonds:

#### Sources:

Principal amount of 1998 Bonds	\$ 93,020,000.00
Funds Released From the Indenture	7,143,301.25
Plus: Net Original Issue Premium	<u>1,926,836.05</u>

Total Sources \$102,090,137.30

#### Uses:

Refunding of 1991 Bonds	\$101,206,213.25
Costs of issuance of the 1998 Bonds <sup>(1)</sup>	<u>883,924.05</u>

Total Uses \$102,090,137.30

<sup>(1)</sup> Including Underwriters' discount, estimated legal, accounting, printing, fiduciary and other expenses.

Accrued interest received upon delivery of the 1998 Bonds will be deposited with the Trustee in the Debt Service Fund for Facility No.1--Series 1998 Account under the Indenture and used to pay a portion of the interest on the 1998 Bonds due and payable on July 1, 1998.

### SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

#### Rental Payments and Other Net Revenues

The Facility No. 1 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 1 that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 1. The Facility No. 2 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 2 that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 2. Any Additional Bonds shall be payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of the particular Facility for which they were issued that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such Facility. See "Summary of Certain Provisions of the Use and Occupancy Agreement" in Appendix B.

The Facility No. 1 Bonds and Facility No. 2 Bonds do not and any Additional Bonds will not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application

of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. The Facility No. 1 Bonds are payable solely as to both principal and interest from the net revenues of Facility No. 1.

In the Indenture, the Commission pledges, assigns and grants a security interest in the Trust Estate (as hereinafter defined) to the Trustee, in trust, in order to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds issued and outstanding under the Indenture, subject to the provisions of the Indenture requiring or permitting the application of the Trust Estate for the purposes and on the terms set forth in the Indenture. The Trust Estate is ratably pledged to each series of Bonds related to a particular Facility as follows: (i) the Net Revenues related to such Facility (as hereinafter defined), (ii) the proceeds of the sale of the Bonds related to such Facility, and (iii) all funds held under the Indenture for the benefit of a particular Facility (except the Revenue Fund, the Operation and Maintenance Fund and the Rebate Fund) including the investment if any, thereof. Amounts held in the General Fund (as defined in the Indenture) shall be held for the benefit of all series of Bonds, without regard to a particular Facility. The Indenture defines "Net Revenues" as all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of a Facility or any portion thereof pursuant to the terms of the Use and Occupancy Agreement related to such Facility or otherwise, or from the sale, transfer or conveyance of a Facility or any portions thereof, and remaining after the payment or provision for payment of the expenses of operation, maintenance and repair of the Facility or any portion thereof required to be paid by the Commission. The Net Revenues to be used for the payment of debt service on the Bonds related to a particular Facility will be generated primarily from payments to be made by the Department of Administration pursuant to the Facility's Use and Occupancy Agreement.

In accordance with the Act, rentals will not be payable under any Use and Occupancy Agreement until the construction of the Facility or portion thereof subject thereto has been completed and such Facility or portion thereof is declared available for use and occupancy by the Department of Administration. As of the date of this Official Statement, Facility No. 1 has been declared to be ready for use and occupancy and is being leased by the Commission to the State Department of Administration (the "Department of Administration") pursuant to a Use and Occupancy Agreement by and between the Commission, as lessor, and the Department of Administration, as lessee, dated as of November 1, 1991 (the "Original Use and Occupancy Agreement No. 1"), as supplemented and amended by a First Supplemental Use and Occupancy Agreement by and between the Commission and the Department of Administration, dated as of July 1, 1995 (the "First Supplemental Use and Occupancy Agreement" and collectively with the Original Use and Occupancy Agreement No. 1, "Use and Occupancy Agreement No. 1").

In accordance with the Act, the payment of rentals pursuant to the Use and Occupancy Agreements will be subject to and dependent upon funds having been appropriated by the General Assembly and being available for such purpose. In accordance with the constitution and laws of the State, the General Assembly meets for a maximum period of sixty-one legislative days in every odd-numbered year and makes appropriations for the biennium commencing on July 1 of such year. The General Assembly also meets for a maximum period of thirty legislative days in intervening years and may make supplemental appropriations at such time. Although the General Assembly has authorized the construction of Facility No. 1 and has determined that a continuing need exists for the use and occupancy thereof, there is and can be under Indiana law no requirement for the General Assembly to make appropriations for Facility No. 1 for any fiscal year of the State (a "Fiscal Year").

The Indenture requires the Commission to use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration moneys sufficient to enable the Commission to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in the preceding paragraph. The Indenture also requires that the Use and Occupancy Agreements provide that the Department of Administration must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Commission to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in the preceding paragraph. However, neither the Department of Administration nor any holder of any Bonds, including the 1998 Bonds, may legally compel the General Assembly to make all or any such appropriations. (See Appendix A for more information concerning State indebtedness, State finances and the State budget and appropriations process.)

In accordance with the Act, the Department of Administration is not obligated to pay for the use and occupancy of any Facility, but the Department of Administration is required to vacate such Facility if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities thereby afforded. The Act provides that in determining just and reasonable amounts to be paid for the use and occupancy of a Facility, the Commission shall impose and collect amounts that in the aggregate will be sufficient to: (i) pay the expenses of operation, maintenance and repair of the Facility, to the extent that the expenses are not otherwise provided; and (ii) leave a balance of revenues from the Facility to pay the principal and interest (including any reserve or sinking funds) on bonds or loans as they become due and retire them at or before maturity. However, there can be no assurance that the terms and conditions of Use and Occupancy Agreement No. 1 and the amount to be paid for the use and occupancy of Facility No. 1 will not be shown to be unjust or unreasonable.

Use and Occupancy Agreement No. 1's original term expired on July 1, 1997 and was renewed for an additional term that expires on July 1, 1999. The Department of Administration is under no obligation to renew Use and Occupancy Agreement No. 1 after expiration of its current term or any subsequent two-year term. Use and Occupancy Agreement No. 1 will terminate pursuant to the terms thereof and in accordance with the Act if, among other things: (a) the General Assembly does not appropriate sufficient funds to allow the Department of Administration to make rental payments thereunder or funds are not available to the Department of Administration to pay, when due, any sum required to be paid for use and occupancy thereunder or (b) the Department of Administration elects not to renew Use and Occupancy Agreement No. 1 at the end of its current term or any subsequent two-year term. See "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS" in Appendix B. Under Use and Occupancy Agreement No. 1, in the event the Department of Administration is required to vacate Facility No. 1, or any portion thereof, because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to such Use and Occupancy Agreement at the end of any term, the Commission is required, under and subject to the Indenture, to use its best efforts to re-lease Facility No. 1 to other users. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Tax Covenants" in Appendix B. However, there can be no assurance that the Commission will be able to accomplish any such re-leasing, in whole or in part, or that, if accomplished, any such re-leasing will generate revenues sufficient to pay debt service on the Facility No. 1 Bonds when due.

The Indenture requires the Commission to fix, establish and maintain rents, rates, fees and charges which are reasonably expected to yield during each Fiscal Year in which a Facility or any portion thereof is available for use and occupancy an amount which, together with any amounts in the Construction Fund under the Indenture available therefor, is equal to at least (a) to the extent the Commission is obligated under the Use and Occupancy Agreements or otherwise, to operate, maintain or repair a Facility or any portions thereof at its expense, 100% of such expenses of operation, maintenance and repair during such Fiscal Year for a Facility or such portions thereof, (b) 100% of the expenses to be incurred by the Commission in managing and administering a Facility or such portion thereof and in complying with the covenants of the Indenture, (c) 100% of the Debt Service for the related Facility, for such Fiscal Year, (d) 100% of the required deposits, if any, to the Debt Service Reserve Fund under the Indenture during such Fiscal Year and, (e) to the extent authorized or permitted by the Act, one sixth of such amount as the Commission annually estimates, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, is required to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility or such portion thereof to be incurred through the end of the sixth Fiscal Year commencing on the first day of such Fiscal Year. However, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to use and occupy the Facility subject thereto, without affecting its right to use and occupy any other Facility under any other Use and Occupancy Agreement. The Indenture provides that in such event, the Commission, in fixing rents, rates and fees and charges for a Facility which continues to be leased to the Department of Administration, must not establish rents, fees or charges for such Facility in excess of such Facility's allocable share of the amounts described in clauses (b), (c) or (d) above, determined by taking into account the amount of the Bond proceeds used to finance the Facility under the Indenture. Rents, fees and charges for such Facility related to the amounts described in clauses (a) and (e) will be based on the costs directly related to such Facility.

If for any of the foregoing reasons the Commission is not receiving rentals from the Department of Administration for Facility No. 1 under Use and Occupancy Agreement No. 1, sufficient funds may not be available to pay Debt Service on the Facility No. 1 Bonds in full, on a timely basis. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE-- Defaults and Remedies" in Appendix B.

The Trust Estate does not include, and holders of the 1998 Bonds will not receive, any mortgage, lien or security interest in any portion of Facility No. 1 or any other Facility or real property financed under the Indenture.

#### **Enforceability of Rights and Remedies**

The enforceability of the rights and remedies of the Trustee, the holders of the Bonds, the Commission and the Department of Administration are limited. See "ENFORCEABILITY OF RIGHTS AND REMEDIES."

#### **Additional Bonds**

Under the Indenture, one or more series of Additional Bonds may be issued. All Bonds issued for a particular Facility shall be issued on a parity basis. Bonds issued for a separate Facility shall be separately secured by the Net Revenues of such Facility pursuant to a separate Use and Occupancy Agreement. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Additional Bonds" in Appendix B. The proceeds of any Additional Bonds will be applied as provided in a supplemental indenture adopted by the Commission pursuant to the Indenture (a "Supplemental Indenture") authorizing such Additional Bonds.

## **Refunding Bonds**

Under the Indenture, one or more series of Refunding Bonds may be issued at any time to refund all or any part of any outstanding series of Bonds issued under the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Refunding Bonds" in Appendix B. Refunding Bonds will be issued under the Indenture in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the required deposits into the Funds, Accounts and Subaccounts (as defined herein), as set forth in the Indenture.

## **Amendments to the Existing Indenture**

The Existing Indenture pursuant to which the Prior Bonds were issued will be amended in certain respects by the Indenture. The owners of the 1998 Bonds will be deemed to consent to these amendments by their acceptance of the 1998 Bonds. Contemporaneously with the issuance of the 1998 Bonds, the amendments to the Existing Indenture will become effective. Certain of those amendments are discussed below.

The Existing Indenture provides that monies received by the Commission under the Use and Occupancy Agreements would be available for debt service for all Bonds then outstanding thereunder in the event that funds are not sufficient to pay debt service on all the Bonds. Under the Indenture, only the Bonds funding a particular Facility would be paid from the payments to be made under the related Use and Occupancy Agreement; however if such monies were not needed for the related Facility and had been transferred to the General Fund, then funds would be used pro-rata to satisfy any deficiencies.

The failure to make debt service payments on Bonds related to a particular Facility would not cause a default on Bonds related to another Facility.

The definition of Facilities which may be financed under the Indenture has been expanded to include any project authorized to be financed by the Commission.

The Indenture provides for a release of the mortgages on the Facilities granted under the Existing Indenture and does not require mortgages on Additional Facilities.

The Debt Service Reserve Funds currently required under the Existing Indenture will be released, and the Commission will have an option to fund a Debt Service Reserve Fund on a Facility by Facility basis in the future.

Finally, a clarification to the Existing Indenture allows monies accumulated in the General Fund to be used for any lawful purpose of the Commission.

See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B.

## **DESCRIPTION OF THE 1998 BONDS**

### **General Description**

The 1998 Bonds are issuable as fully registered bonds and are not registrable to bearer. The 1998 Bonds are issuable in the denomination of \$5,000 or integral multiples thereof. The 1998 Bonds will be dated as of January 1, 1998, and will be lettered and numbered consecutively from R-1 upwards.

Interest on the 1998 Bonds will be payable commencing July 1, 1998, and on each January 1 and July 1 thereafter (each an "Interest Payment Date"). The 1998 Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the cover of this Official Statement. Each 1998 Bond will bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated after the fifteenth day of the month prior to an Interest Payment Date (a "Record Date") and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) authenticated prior to the closing of business on the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from January 1, 1998; provided, however, that if, at the time of authentication of any 1998 Bond, interest is in default, such 1998 Bond will bear interest from the date to which interest has been paid.

For so long as the 1998 Bonds are registered in the name of DTC or its nominee, payments of principal of and redemption premium, if any, and interest on the 1998 Bonds will be paid by the Paying Agent only to DTC or its nominee. Neither the Commission, the Paying Agent nor any other Fiduciary will have any responsibility for a Beneficial Owner's receipt from DTC or its nominee, or any from any DTC Participant or Indirect Participant, of any payments of principal of or redemption premium, if any, or interest on any 1998 Bonds. See "Book-Entry-Only System."

In the event the 1998 Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the 1998 Bonds will be paid by check of the Paying Agent mailed on or before the business day prior to each Interest Payment Date to the registered owners or registered assigns appearing on the registration books maintained by the Bond Registrar as of the close of business on the most recent Record Date; provided, however, that a registered owner of at least \$1,000,000 aggregate principal amount of 1998 Bonds may request to receive payment of interest on any Interest Payment Date by wire transfer, upon written instructions to the Trustee not less than five business days prior to the Record Date immediately preceding such Interest Payment Date, which instructions will remain in effect until revoked in writing by such owner. In the event the 1998 Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, the principal of and redemption premium, if any, on the 1998 Bonds will be payable at the corporate trust operation office of the Paying Agent, in Chicago, Illinois.

## Redemption

**Optional Redemption.** The 1998 Bonds maturing on or after July 1, 2009 are subject to optional redemption in the principal amount and maturity or maturities selected by the Commission, and within any single maturity by lot in such manner as may be designated by the Trustee, in whole or in part at any time on or after July 1, 2008, at redemption prices (expressed as percentages of the principal amount of the 1998 Bonds to be redeemed) set forth in the table below, plus accrued interest to the redemption date:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Price</u>
July 1, 2008, through June 30, 2009	101%
July 1, 2009, and thereafter	100%

**Extraordinary Redemption.** The 1998 Bonds are, at the option of the Commission, subject to extraordinary redemption prior to their stated maturities, at any time upon notice given within the time, in the manner and with the effect provided by the Indenture, upon the occurrence of any of the following events: (a) Facility No. 1 is totally or substantially destroyed and the amount of insurance money received on account thereof by the Trustee is sufficient to pay all of the principal of and accrued interest on such Bonds outstanding allocable to Facility No. 1, (b) there is a total or substantial failure of title with respect to Facility No. 1, or (c) there is a taking by condemnation or eminent domain of Facility No. 1; provided, that all Bonds outstanding allocable to Facility No. 1 (and only such Bonds) must be redeemed pursuant to this provision. In the event Facility No. 1 is damaged or destroyed, Facility No. 1 may, under certain circumstances, be repaired, replaced or reconstructed. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Insurance and Completion of Performance" in Appendix B.

In the event of such an extraordinary redemption, the redemption price of 1998 Bonds will be 100% of the principal amount of the 1998 Bonds being redeemed plus accrued interest to the redemption date but without any premium.

**Selection of Bonds; Partial Redemption.** If fewer than all of the 1998 Bonds within a single maturity are called for redemption prior to maturity, the particular 1998 Bonds or portions thereof to be redeemed will be selected by the Trustee in such manner as the Trustee, in its discretion, may deem to be fair and appropriate. For any 1998 Bond called for prior redemption in a denomination of more than \$5,000, the portion of such Bond to be redeemed will be in a principal amount equal to \$5,000 or a multiple thereof. In selecting portions of 1998 Bonds for redemption, the Trustee will treat each 1998 Bond as representing that number of Bonds of such minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. In the event that any portion of a 1998 Bond is redeemed, the owner of such 1998 Bond, upon surrender of such 1998 Bond and without charge, will receive a 1998 Bond or 1998 Bonds of like maturity for the unredeemed balance of the principal amount of such 1998 Bond.

For so long as the 1998 Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only 1998 Bonds or portions thereof registered in the name of DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Trustee nor any other Fiduciary will have any responsibility for selecting for redemption any Beneficial Owners' interests in the 1998 Bonds. See "Book-Entry-Only System."

**Notice of Redemption.** In the event that any 1998 Bonds are called for redemption, the Trustee will give notice not less than thirty and not more than sixty days prior to the date fixed for any such redemption to the owners of the 1998 Bonds or portions thereof to be redeemed by sending a copy of the redemption notice required by the Indenture, by first class mail, to such owners at their last address appearing on the registration books maintained by the Bond Registrar as of the close of business on the last business day of the month prior to the month during which such notice is mailed. Any defect in the giving of any notice will not affect the validity of the redemption proceedings for those 1998 Bonds for which notice was properly given.

For so long as the 1998 Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of 1998 Bonds only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Trustee nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any notices of redemption. See "Book-Entry-Only System."

**Redemption Payments.** On or prior to the date fixed for redemption of any 1998 Bonds, there must be on deposit with the Paying Agent sufficient funds to pay the redemption price of the 1998 Bonds or portions thereof called. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Paying Agent, interest will cease to accrue on the 1998 Bonds or portions thereof that have been called.

For so long as the 1998 Bonds are registered in the name of DTC or its nominee, redemption payments on the 1998 Bonds will be paid by the Paying Agent only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Paying Agent nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any redemption payments on any 1998 Bonds. See "Book-Entry-Only System."

### **Transfer and Exchange**

The 1998 Bonds may be transferred or exchanged by any Bondholder or any Bondholder's duly authorized attorney at the principal corporate trust office of the Bond Registrar, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax, fee or other governmental charge for any such transfer or exchange that may be imposed upon the Commission or the Bond Registrar. The Bond Registrar will not be required (a) to transfer or exchange any 1998 Bonds during the period of fifteen days prior to any selection of such Bonds to be redeemed until after the mailing of a notice of redemption, or (b) to transfer or exchange any 1998 Bonds called for redemption.

For so long as the 1998 Bonds are registered in the name of DTC or its nominee, the Bond Registrar will transfer and exchange 1998 Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Bond Registrar nor any other Fiduciary will have any responsibility for transferring or exchanging any Beneficial Owners' interests in the 1998 Bonds. See "Book-Entry-Only System."

### **Book-Entry-Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 1998 Bonds. The 1998 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 1998 Bond certificate will be issued for each maturity of the 1998 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1998 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 1998 Bonds on DTC's records. The ownership interest of each actual purchaser of each 1998 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1998 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 1998 Bonds, except in the event that use of the book-entry system for the 1998 Bonds is discontinued.

To facilitate subsequent transfers, all 1998 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1998 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1998 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1998 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 1998 Bonds are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such 1998 Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 1998 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission, as issuer, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 1998 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 1998 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, any other Fiduciary or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Commission or the Paying Agent or any other Fiduciary, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 1998 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 1998 Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 1998 Bond certificates will be printed and delivered.

The information concerning DTC and DTC's book-entry system has been obtained from DTC, and the Commission takes no responsibility for the accuracy thereof.

#### **Revision of Book-Entry-Only System**

In the event that either (1) the Commission receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the 1998 Bonds or (2) the Commission elects to discontinue its use of DTC as a clearing agency for the 1998 Bonds, then the Commission and the Trustee or other Fiduciary will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the 1998 Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the 1998 Bonds and to transfer the ownership of each of the 1998 Bonds to such person or persons, including any other clearing agency, as the holder of such 1998 Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the 1998 Bonds, will be paid by the Commission.

### **INDIANA STATE OFFICE BUILDING COMMISSION**

#### **General**

The Indiana State Office Building Commission is a public body corporate and politic. Although it is separate from the State, the exercise by the Commission of its powers constitutes an essential governmental function. Pursuant to the Act, the Commission may issue bonds, but any bonds issued by the Commission are corporate obligations only of the Commission and are payable solely from and secured exclusively by the pledge of the income and revenues of the facility financed by such bonds that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such facility, to the extent that expenses of operation, maintenance and repair are not otherwise provided. The Commission has no taxing power, and any indebtedness incurred by the Commission does not constitute an indebtedness of the State within

the meaning or application of any constitutional provision or limitation. (See Appendix A for further information concerning prohibitions on State indebtedness.)

### **Powers Under the Act**

Under the Act, the Commission may, among other things: (a) acquire, own, manage, operate, hold, clear, improve, construct facilities on, sell, assign, exchange, transfer, convey, lease, mortgage or otherwise dispose of or encumber real property, or interests therein or facilities thereon, where such use is necessary or appropriate to the purposes of the Commission; and (b) borrow funds as set forth in the Act and issue revenue bonds of the Commission, payable solely from revenues, as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, or from both, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition or construction of any one or more facilities, or for the purpose of refunding any other bonds or loan contracts of the Commission.

### **Facilities Program**

**General.** The Commission is empowered to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, to acquire, construct and equip facilities. The Act defines "facilities" to include all or any part of one or more buildings, structures or improvements or parking areas, owned or leased by the Commission or the State for the purpose of : (i) housing the personnel or activities of state agencies or branches of state government (ii) providing transportation or parking for state employees or persons having business with state government; or (iii) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons by the State's Department of Correction.

**State Office Facilities.** The Commission has completed a working, multi-project site acquisition and coordination, construction and renovation program adjacent to the State House, in Indianapolis, the State capital, known as the Indiana Government Center Master Plan, relating to certain state office buildings and parking facilities. The Commission has issued and may continue to issue debt obligations to provide funds for financing or refinancing the implementation of the Indiana Government Center Master Plan. See Appendix A, "CERTAIN FINANCIAL AND ECONOMIC INFORMATION ON THE STATE OF INDIANA--STATE INDEBTEDNESS."

**Correctional Facilities.** In 1991, in response to the State's existing and projected prison capacity and population, the General Assembly amended the Act, in P.L. 240-1991(ss2), to authorize the Commission to finance the acquisition, design, construction and equipping of all or any part of one or more buildings, structures or improvements owned or leased by the Commission or the State for the custody, care, confinement or treatment of committed persons by the Department of Correction. The Act permits the Commission to provide for facilities upon the General Assembly's statutory (a) finding that the State has a need for the renovation, refurbishing or alteration of existing facilities or construction of additional facilities and (b) authorization of the Commission to provide for such facilities. Pursuant to the Act, in P.L. 240-1991(ss2), the General Assembly found that the State needs and will have a continuing need for use and occupancy of (i) one additional maximum security correctional facility; (ii) one additional medium security correctional facility; and (iii) one additional correctional facility for women.

Pursuant to this legislative authorization, the Commission has undertaken a program for the acquisition, design, construction and equipping of correctional facilities (the "Correctional Facilities Program"). Facility No. 1 and Facility No. 2 were the first facilities financed by the Commission under the Correctional Facilities Program, and the Commission heretofore issued the Prior Bonds to finance the costs of Facility No. 1 and Facility No. 2. The General Assembly has also authorized the Commission to finance additional correctional facilities as part of the Correctional Facilities Program. See Appendix A, "CERTAIN FINANCIAL AND ECONOMIC INFORMATION ON THE STATE OF INDIANA--STATE INDEBTEDNESS".

The Commission expects that Facility No. 1 and Facility No. 2 have been and will be designed and constructed in substantial compliance with current federal and State constitutional and statutory standards for custody and treatment of offenders. However, federal and State standards for custody and treatment of offenders, including standards for housing, medical care and other facilities and services, have changed in recent years and are expected to continue to change. While the Commission anticipates that Facility No. 1 and Facility No. 2 will be adaptable to such changes, there can be no assurance that Facility No. 1 or Facility No. 2 will be in compliance with future federal and State constitutional and statutory standards for custody and treatment of offenders, and there can be no assurance as to the effect, if any, of noncompliance upon the availability of Facility No. 1 or Facility No. 2 for use and occupancy by the Department of Administration.

**Facility No. 1.** The Commission has previously entered into an agreement with the Department of Administration, under which the Department of Administration acquired, constructed and equipped Facility No. 1 for and on behalf of the Commission in accordance with applicable plans and specifications.

Facility No. 1 consists of a maximum and a medium security correctional facility situated on approximately 200 acres of farm land near the town of Carlisle (Sullivan County), in southwestern Indiana. Carlisle is approximately 30 miles south of Terre Haute (Vigo County) and 20 miles north of Vincennes (Knox County). U.S. 41, a four-lane highway, is the western boundary of the site.

The maximum security facility accommodates adult male offenders in a multi-building complex. The complex contains two semi-autonomous compounds inside a security perimeter. In one compound, offenders are confined in several separate housing units containing a total of 352 cells. In the other compound, a "supermax" facility, offenders are confined in a single housing unit containing 288 cells. This portion of Facility No. 1 also includes administrative, medical, visitation, recreation, laundry, warehouse, maintenance, industries and kitchen facilities.

The medium security facility for adult male offenders is a multi-building complex adjacent to the maximum security facility. Offenders are confined within several separate housing units inside a security perimeter. This portion of Facility No. 1 includes visitation, education, recreation and industries facilities, and shares in the use of certain facilities constructed with the maximum security facility, including a common security perimeter and administrative, laundry, kitchen, maintenance and warehouse facilities. In addition, a minimum security facility, with approximately 120 beds, has been constructed outside the security perimeter.

The State acquired title to the site for Facility No. 1, subject to certain utility easements and other encumbrances, and conveyed such title to the Commission upon the issuance of the 1991 Bonds.

Additional Facilities. Pursuant to the Correctional Facilities Program, additional correctional facilities may be constructed in addition to Facility No. 1.

The 1995B Bonds were used to construct Facility No. 2 which is situated on approximately 54 acres near the town of Rockville (Parke County), in western Indiana. Rockville is approximately 25 miles north of Terre Haute (Vigo County).

Facility No. 2 is called the Rockville Correctional Facility and currently provides one housing unit for female adult offenders. Most of the existing facility will be demolished and will be replaced with a multi-building complex providing five separate housing units which will accommodate a maximum of 900 offenders. The complex will also include a new multi-purpose building for education, vocational training, medical facilities and a chapel. A new gatehouse will also be provided.

The State acquired title to the site for Facility No. 2, subject to certain utility easements and other encumbrances, and conveyed title to the Commission upon the issuance of the 1995B Bonds. It is currently expected that construction of Facility No. 2 will be completed and available for use and occupancy as of July 1, 1998. The Projected Commencement Date for Facility No. 2 is June 1, 1998.

### **Organization and Membership of the Commission**

The Commission consists of the following members: the Governor, who serves as chairman; the Lieutenant Governor, who serves as vice chairman; the State Budget Director, who serves as secretary; the State Treasurer, who serves as treasurer; the Commissioner of the Department of Administration; the State Auditor; and seven persons appointed by the Governor, no more than four of whom may be of the same political party. Of those seven members appointed by the Governor, (a) one must be either an architect or an engineer registered in the State; (b) one must be a general mechanical or electrical contractor with not less than ten years of experience in nonresidential types of construction; (c) one must be a certified public accountant with not less than five years of experience in public building bond financing; and (d) one must be a person with experience and knowledge in the field of architectural history or the preservation of historical buildings.

The terms of the current Governor and Lieutenant Governor will each expire in January, 2001, while the terms of the current State Treasurer and the current State Auditor will expire on February 10, 1999, and December 1, 1998, respectively. The seven members appointed by the Governor are each appointed for terms of four years, during which they may not hold any other public office. The terms of all current appointed members of the Commission will expire on July 1, 2001, but the Governor may reappoint any or all of them to additional terms.

Seven members constitute a quorum. The affirmative votes of at least seven of the members, however, are necessary for any action to be taken by the Commission.

The Commission may employ an executive director (the "Executive Director") as the chief administrative officer of the Commission, charged with the general supervision of the Commission's work, subject to policies adopted by the Commission. Susan Williams is the Executive Director of the Commission. Joe Wiesinger is Chief Deputy Director.

## Members

The following persons, including those persons with the particular types of experience or governmental positions required by the Act, are the present members of the Commission. There are currently three vacancies on the Commission.

<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Frank O'Bannon	Chairman	Governor
Joseph E. Kernan	Vice Chairman	Lieutenant Governor
Peggy Boehm	Secretary	State Budget Director
Joyce Brinkman	Treasurer	State Treasurer
Morris Wooden	Member	State Auditor
Betty Cockrum	Member	Commissioner, Department of Administration
Eleanor F. Bookwalter	Member*	Architectural Historian, Carmel, Indiana
Kenneth L. DeLap	Member*	President and Chairman of the Board, SIGECO Inc., Columbus, Indiana
Keith G. Hedinger	Member*	Owner, Hedinger Beverage Distributing, Jasper, Indiana
Kipper Tew	Member*	Government Relations, Public Service Indiana, Indianapolis, Indiana
Robert Batteast	Member*	President, Batteast Construction, South Bend, Indiana
Myron Fraser	Member*	Owner, Fraser's Gourmet Foods, Inc., Fishers, Indiana
Brad Chambers	Member*	President, Buckingham Companies

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\*Appointed by the Governor

## Summary Of Outstanding Facilities Debt

Indiana Government Center. The Commission has issued several series of revenue bonds under various separately secured indentures to finance the implementation of the Indiana Government Center Master Plan (the Capitol Complex Revenue Bonds"). See Appendix A, "CERTAIN ECONOMIC AND FINANCIAL INFORMATION ON THE STATE OF INDIANA- State Indebtedness."

No portion of the revenues and funds pledged for payment of any of the Capitol Complex Revenue Bonds will be available for payment of the principal of or redemption premium, if any, or interest on the Prior Bonds, the 1998 Bonds or any other Bonds.

Other Facilities. The following table summarizes the debt service requirements of the Bonds issued and outstanding under the Indenture after the issuance of the 1998 Bonds. Pursuant to the terms of Use and Occupancy Agreement No. 1, the Facility No. 1 Bonds are issued on a parity basis. The 1995B Bonds were issued to acquire and construct Facility No. 2 and are separately secured by the Net Revenues of Facility No. 2, pursuant to Use and Occupancy Agreement No. 2. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS":

	FACILITY NO. 1 BONDS		FACILITY NO. 2 BONDS
	<u>1998 Bonds</u>	<u>1995A Bonds</u>	<u>1995B Bonds</u>
Amount Outstanding Upon Delivery of 1998 Bonds	\$93,020,000	\$54,025,000	\$47,975,000
Interest Rates	3.90% - 5 1/8%	4.15% - 5.50%	4.25% - 6.25%
Maturities	7/1/2001 - 7/1/2016	7/1/1998 - 7/1/2020	7/1/1999 - 7/1/2020

The aggregate principal amount of all outstanding Facility No. 1 Bonds and Facility No. 2 Bonds, as of the date of delivery of the 1998 Bonds, will be \$195,020,000. The maximum annual aggregate amount of principal and interest due on all outstanding Facility No. 1 Bonds, payable from rental payments received during any Fiscal Year for the use and occupancy of Facility No. 1 is \$12,005,900. The maximum annual aggregate amount of principal and interest due on all outstanding Facility No. 2 Bonds, payable from rental payments received during any Fiscal Year for the use and occupancy of Facility No. 2 is \$3,892,175.

Revolving Credit Facility. The Commission has a \$20,000,000 revolving credit facility to provide moneys to finance the construction of a facility prior to the issuance of bonds for the construction of such facility. The revolving credit facility is established under a Credit Agreement dated as of January 23, 1997, as supplemented and amended by a First Amendment to Credit Agreement dated as of December 31, 1997, between the Commission and Bank One Indianapolis, NA (the "Credit Agreement"). The Commission does not expect to repay any portion of the amounts drawn under the Credit Agreement with proceeds from the issuance of the 1998 Bonds. In the future, the Commission anticipates utilizing a tax-exempt commercial paper program as an interim financing mechanism to provide funds to finance all or a portion of certain facilities prior to the issuance of bonds for such facilities. The Commission's obligations relating to any tax-exempt commercial paper program will be separately secured from the 1998 Bonds.

If authorized by the General Assembly, the Commission may issue bonds or other debt obligations to finance additional facilities as part of the Indiana Government Center Master Plan, the Correctional Facilities Program or for other authorized facilities or purposes. Such bonds or other debt obligations issued to finance any authorized facilities may be issued either under the Indenture or under one or more separate indentures. Any series of Bonds issued under the Indenture for a particular Facility may be issued on a parity basis. Bonds issued under the Indenture for separate Facilities will be separately secured pursuant to a separate Use and Occupancy Agreement for such Facility. The type, amount and timing of the issuance of any additional bonds or other debt obligations are subject to a number of conditions that cannot be predicted at the present time, including, but not limited to, the evolutionary nature of the Indiana Government Center Master Plan and the Correctional Facilities Program, the scheduled completion of property acquisition, architectural and engineering work, the level of investment rates, conditions in the credit markets, costs of construction, and the financial condition of the State.

#### DEPARTMENT OF ADMINISTRATION

The Department of Administration has leased Facility No. 1 from the Commission pursuant to Use and Occupancy Agreement No. 1. See "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS" in Appendix B. Under the Act, the Department of Administration has the power to negotiate and execute a use and occupancy agreement for all or any State agencies or branches of State government.

The Department of Administration is responsible for the provision of certain administrative services to State agencies and is headed by a Commissioner who is appointed by and serves at the pleasure of the Governor. The Commissioner, who is

required to be well-versed in administrative management and in the affairs of State government, directs a staff of more than 500 employees. Betty Cockrum is the Commissioner of the Department of Administration.

Indiana Code 4-13-1 empowers the Department of Administration to execute and administer all appropriations as provided by law and to execute and administer all laws that impose duties and functions upon the executive department of government. The Department of Administration also supervises and regulates the making of contracts by State agencies.

The Department of Administration is responsible for assigning office space, storage space and parking facilities for State agencies in accordance with Indiana Code 4-13-15. In carrying out its responsibilities, standards are required to promote increased efficiency through the grouping of interrelated State agencies and must facilitate public access to State government and ensure that State offices will be centrally located in urban areas, unless such location would not serve the interests of efficiency, economy and accessibility. The Department of Administration then assigns the appropriate space in or on real property owned or leased by the State, and, with the approval of the Governor, leases the space for the use of State agencies.

The Department of Administration must also prepare and make available for public inspection an annual report of office space, storage space and parking facilities leased for State offices in each county. Indiana Code 4-13-2-14.1 and 4-13-15.5 provide that, subject to certain exceptions, a contract to which a State agency is a party, including the Use and Occupancy Agreements, must be approved by the head of the State agency, the Commissioner of the Department of Administration, the State Budget Director, the Governor and the Attorney General. By law, a lease may provide for the State to make improvements on the leased premises if authorized by the public works division of the Department of Administration, and may provide for payment to the lessor at any time during the term of the lease for leasehold improvements made by the lessor. No lease may extend for a term of more than four years. The State may, however, renew a lease for successive terms.

## **LITIGATION**

At the time of delivery of the 1998 Bonds, the Commission will certify that there is no litigation or other proceeding pending or, to the knowledge of the Commission, threatened in any court, agency or other administrative body restraining or contesting the issuance, sale, execution or delivery of the 1998 Bonds, the pledging of the Trust Estate under the Indenture, or in any way affecting the validity of any provision of the 1998 Bonds, the resolution authorizing the 1998 Bonds, the Indenture, Use and Occupancy Agreement No. 1, Use and occupancy Agreement No. 2, or the pledges or applications of any moneys or securities provided for the payment of the 1998 Bonds. Neither the creation, organization or existence of the Commission nor the title of any of the present members or other officers of the Commission to their respective offices is being contested. For a discussion of litigation involving the State, see "LITIGATION" in Appendix A.

## **TAX MATTERS**

In the opinion of Ice Miller Donadio & Ryan, as bond counsel ("Bond Counsel"), under existing statutes, judicial decisions, regulations and rulings, interest on the 1998 Bonds is excludable from gross income under Section 103 of the Code, for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the 1998 Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Commission with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the 1998 Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1998 Bonds is exempt from income taxation in the State of Indiana. See Appendix B for the form of opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the 1998 Bonds as a condition to the exclusion from gross income of interest on the 1998 Bonds for federal income tax purposes. The Commission will covenant not to take any action, nor fail to take any action within its power with respect to the 1998 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 1998 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Indenture and certain certificates and agreements to be delivered on the date of delivery of the 1998 Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if the interest on the 1998 Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the date of the issuance of the 1998 Bonds.

The interest on the 1998 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 1998 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general are all corporations transacting the business of a financial institution in Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisers regarding the impact of this legislation on their ownership of the 1998 Bonds.

Although bond counsel has rendered an opinion that interest on the 1998 Bonds is excludable from federal gross income and exempt from State income tax, the accrual or receipt of interest on the 1998 Bonds may otherwise affect a 1998 Bondholder's federal income or state income tax liability. The nature and extent of these other tax consequences will depend upon the 1998 Bondholder's particular tax status and a 1998 Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the 1998 Bonds. Bond counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the 1998 Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the 1998 Bonds.

### **ENFORCEABILITY OF REMEDIES**

The enforceability of the rights and remedies of the Trustee or holders of the 1998 Bonds under the Indenture, the enforceability of the rights and remedies of the Commission under a Use and Occupancy Agreement, the enforceability of the rights and remedies of any other party under any other agreement in this financing, and the availability of remedies to any party seeking to enforce the pledge of the Trust Estate, including the pledge of the rentals under a Use and Occupancy Agreement (collectively, the "Pledges"), are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the rights and remedies provided (or which may be provided) under the Indenture, a Use and Occupancy Agreement and any other agreement in this financing, and the rights and remedies of any party seeking to enforce the Pledges, may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 1998 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion in appropriate cases.

### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the authorization and issuance of the 1998 Bonds are subject to the unqualified approving opinion of Ice Miller Donadio & Ryan, Indianapolis, Indiana, bond counsel, whose approving opinion will be printed on or delivered with the 1998 Bonds. Certain legal matters will be passed upon for the Commission by the Attorney General of the State, counsel to the Commission, and for the Underwriters by Bingham Summers Welsh & Spilman, Indianapolis, Indiana, underwriters' counsel.

The various legal opinions to be delivered concurrently with the delivery of the 1998 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The various legal opinions to be delivered concurrently with the delivery of the 1998 Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **UNDERWRITING**

The 1998 Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement for whom Morgan Stanley & Co. Incorporated is acting as representative. The Underwriters have jointly and severally agreed to purchase the 1998 Bonds at an aggregate purchase price of \$94,378,156.37 (which represents the face amount of the 1998 Bonds, less an underwriting fee of approximately \$568,680 plus a net original issue premium of \$1,926,836), plus accrued interest on the 1998 Bonds, pursuant to a contract of purchase entered into by and between the Commission and the Underwriters. Such contract of purchase provides that the Underwriters will purchase all of the 1998 Bonds if any are purchased. The initial offering price may be changed from time to time by the Underwriters.

The Underwriters have agreed to make a bona fide public offering of all of the 1998 Bonds at prices not in excess of the initial public offering prices set forth or reflected on the cover page of this Official Statement. The Underwriters may sell the 1998 Bonds to certain dealers (including dealers depositing 1998 Bonds into investments trusts) and others at prices lower than the offering prices set forth on the inside cover page hereof.

## **RATINGS**

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Group ("S&P") and Fitch IBCA, Inc. ("Fitch") have assigned long-term ratings of "Aa3," "AA-" and "AA-", respectively, to the 1998 Bonds. These ratings reflect only the view of Moody's, S&P and Fitch, and an explanation thereof may be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 25 Broadway, New York, New York 10004, and from Fitch at One State Street Plaza, New York, New York 10004. Such ratings are not a recommendation to buy, sell or hold the 1998 Bonds. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P or Fitch if, in their respective judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price or marketability of the 1998 Bonds.

## **FINANCIAL STATEMENTS**

The financial statements of the Commission for the Fiscal Year ended June 30, 1997, which financial statements are the most recent available, have been audited by Katz, Sapper & Miller, independent certified public accountants, and are available upon request from the Commission. See "MISCELLANEOUS."

The Commission is required under the Indenture to file its annual financial statements with the Trustee.

The general purpose financial statements of the State, included in Exhibit A-1 to Appendix A, have been audited by the State Board of Accounts, as described in its report appearing in Exhibit A-1 to Appendix A.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Concurrently with the delivery of the 1998 Bonds, Crowe, Chizek and Company, LLP, Indianapolis, Indiana ("Crowe Chizek"), a firm of independent certified public accountants, will deliver to the Commission their attestation report indicating that they have examined, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of certain computations provided by Morgan Stanley & Co. Incorporated on behalf of the Commission relating to (a) the computation of forecasted receipts of principal and interest on the Defeasance Obligations deposited under the Escrow Agreement and the forecasted payments of principal, interest and premium to redeem the Refunded Bonds, and (b) the computation of the yields on the 1998 Bonds and the Defeasance Obligations supporting the conclusion of Bond Counsel that the 1998 Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder. Such computations were based solely on assumptions and information supplied by Morgan Stanley & Co. Incorporated or the Escrow Trustee and reviewed and approved by the Commission. Crowe Chizek has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **FINANCIAL ADVISOR**

O'Brien Partners, Inc. has served as Financial Advisor to the Commission with respect to the 1998 Bonds and in such capacity has reviewed certain matters pertaining to the 1998 Bonds on behalf of the Commission.

## CONTINUING DISCLOSURE

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission (the "SEC") in SEC Rule 15c2-12, as amended (the "Rule"), the Commission will enter into a Continuing Disclosure Undertaking Agreement (the "Undertaking") with NBD Bank, N.A., as counterparty (the "Counterparty"), to be dated the date of initial delivery of the 1998 Bonds. Pursuant to the terms of the Undertaking, the Commission will agree to provide the following information while the 1998 Bonds are Outstanding:

- (a) Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository then in existence, if any, when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 1998, together with the independent auditor's report and all notes thereto; and
- (b) Financial Information in this Official Statement. To each NRMSIR then in existence and to the Indiana state information depository then in existence, if any, within 210 days of the close of each fiscal year of the State, beginning with the fiscal year ending June 30, 1998, annual financial information for the State for such fiscal year, other than the audited financial statements described above, including (i) unaudited financial statements of the State if audited financial statements are not then available and (ii) operating data (excluding any demographic information or forecasts) of the general type provided under the following headings in this Official Statement (collectively, the "Annual Information"):

### APPENDIX A

#### STATE REVENUES AND EXPENSES

#### FINANCIAL RESULTS OF OPERATIONS

#### STATE INDEBTEDNESS - Obligations Involving Income Derived From Possible State Appropriations

#### STATE INDEBTEDNESS - Contingent Obligations

#### STATE RETIREMENT SYSTEMS

- (c) Event Notices. In a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the Indiana state information depository then in existence, if any, notice of any of the following events, if material (which determination of materiality shall not be the responsibility of the Counterparty):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the 1998 Bonds;
- (7) modifications to the rights of owners of the 1998 Bonds;
- (8) 1998 Bond calls;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the 1998 Bonds; and
- (11) rating changes.

The Commission may from time to time choose to provide notice of the occurrence of any other event, in addition to those listed above, if, in the judgment of the Commission such other event is material with respect to the 1998 Bonds and should be disclosed, but the Commission does not commit to provide any such notice of the occurrence of any material event except those events listed above.

- (d) Failure to Disclose. In a timely manner, to the Counterparty, each NRMSIR or to the Municipal Securities Rulemaking Board, and to the Indiana state information depository then in existence, if any, notice of the Commission failing to provide the Annual Information as described above.

If any Annual Information or audited financial statements relating to the State referred to above no longer can be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Commission to each NRMSIR then in existence and to the Indiana state information depository then in existence, if any, along with any other Annual Information or audited financial statements required to be provided under the Undertaking, will satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Commission will cause to be filed along with other Annual Information or audited financial statements, operating data similar to that which can no longer be provided.

**Accounting Principles.** The accounting principles pursuant to which the State's financial statements will be prepared will be generally accepted accounting principles, as in effect from time to time, those described in the independent auditors' report and the notes accompanying the audited financial statements of the State included in Appendix A to this Official Statement or those mandated by State law from time to time.

**Dissemination Agent.** The Commission may, at its sole discretion, utilize an agent (a "Dissemination Agent") in connection with the dissemination of any information required to be provided by the Commission pursuant to the Rule and the Undertaking under an agreement between the Commission and the Dissemination Agent (the "Dissemination Agreement").

**Remedy.** The purpose of the Undertaking is to enable the Underwriters to purchase the 1998 Bonds by providing for an undertaking by the Commission in satisfaction of the Rule. The Undertaking is solely for the benefit of the owners of the 1998 Bonds and creates no new contractual or other rights for the SEC, underwriters, brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the Commission or the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the Commission's or the State's disclosure obligations under the Undertaking and not for money damages of any kind or in any amount or for any other remedy. The Commission's or the State's failure to honor its covenants under the Undertaking shall not constitute a breach or default of the 1998 Bonds, the Indenture or any other agreement to which the Commission or the State is a party.

The remedy set forth in the preceding paragraph may be exercised by any holder of 1998 Bonds in any court of competent jurisdiction in the State. An affidavit to the effect that such person is a holder of 1998 Bonds supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue such remedy. The Counterparty shall have no obligation to pursue any remedial action under the Undertaking on behalf of any holder of the 1998 Bonds.

Prior to pursuing any remedy for any breach of any obligation under the Undertaking, a holder of 1998 Bonds shall give notice to the Commission, by registered or certified mail, of such breach and its intent to pursue such remedy. Fifteen days after the mailing of such notice, and not before, such remedy may be pursued under the Undertaking if and to the extent the Commission has failed to cure such breach within such fifteen days.

**Modification of Undertaking.** The Commission and the Counterparty may, from time to time, amend or modify the Undertaking without the consent of the owners of the 1998 Bonds if: (a)(i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of execution thereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders of the 1998 Bonds, as determined either by (A) any person selected by the Commission that is unaffiliated with the Commission or the State (including the Counterparty or the Trustee or nationally recognized bond counsel), or (B) an approving vote of the holders of 51% of Outstanding 1998 Bonds at the time of such amendment or modification; or (b) such amendment or modification is permitted by law or the Rule.

The Annual Information or audited financial statements for the fiscal year during which any such amendment or modification occurs that contains the amended or modified Annual Information or audited financial statements will explain, in narrative form, the reasons for such amendment or modification and the impact of the change in the type of Annual Information or audited financial statements being provided.

**Counterparty's Obligation.** The Counterparty shall have no obligation to take any action whatsoever with respect to information or notices provided or required to be provided by the Commission under the Undertaking (or of any Obligated Persons (as defined in the Rule) covered thereby), except as set forth below and except any obligations arising from the Counterparty serving as a Dissemination Agent, and no implied covenants or obligations shall be read into the Undertaking or any Dissemination Agreement for which the Counterparty is the Dissemination Agent against the Counterparty. Further, the Counterparty shall have no responsibility to ascertain the truth, completeness, timeliness, or accuracy of the information or notices provided as required under the Undertaking or the Dissemination Agreement by the Commission or any Obligated Person, nor as to its sufficiency for purposes of compliance with the Rule or the requirements of the Undertaking.

If the Counterparty has not received the Annual Information by the date required by the Undertaking, the Counterparty shall notify the Commission and any Dissemination Agent, by registered or certified mail, that it has not received such Annual Information.

The Counterparty is obligated to, and agrees that it will, within five Business Days (as defined in the Indenture) after mailing the notice referred to in the immediately preceding paragraph, forward to those persons or entities scheduled to receive Annual Information a notice in the event that the Counterparty has not received a copy of such Annual Information by the date required under the Undertaking; provided, however, that the Counterparty will not give such notices as described in this paragraph and the immediately preceding paragraph if the Commission has provided the Counterparty with notice that the

Commission has issued notice of a failure to disclose as described above. Subsequent to the Counterparty's issuance of notice, if any, as described in this paragraph, the Counterparty will have no responsibility to take any further action concerning the Annual Information for the fiscal year to which such notice relates.

Copies of the Undertaking are available from the Commission upon request. See "MISCELLANEOUS."

#### **CERTAIN RELATIONSHIPS**

NBD Bank, N.A., the Trustee and First Chicago Capital Markets, Inc., a member of the 1998 Bond's underwriting group are each separate subsidiaries of First Chicago NBD Corporation.

#### **MISCELLANEOUS**

Information contained in this Official Statement with respect to the Commission, the Department of Administration and the Department of Correction and copies of the Indenture, Use and Occupancy Agreement No. 1, Use and Occupancy Agreement No. 2 and the Undertaking may be obtained from the Indiana State Office Building Commission, Indiana Government Center South, 402 West Washington Street, Room W-478, Indianapolis, Indiana 46204. The Commission's telephone number is (317) 232-2302.

This Official Statement is submitted in connection with the issuance and sale of the 1998 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Commission and duly executed and delivered on its behalf by the official signing below.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Commission are fully set forth in the Indenture in accordance with the Act. Neither any advertisement of the 1998 Bonds nor this Official Statement is to be construed as constituting a contract or agreement between the Commission and the purchasers or owners of the 1998 Bonds.

This Official Statement has been duly approved, executed and delivered by the Commission.

**INDIANA STATE OFFICE BUILDING COMMISSION**

By: /s/ Peggy Boehm  
Secretary

January 23, 1998

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**CERTAIN FINANCIAL AND ECONOMIC  
INFORMATION ON THE STATE OF INDIANA**

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## **INTRODUCTION**

The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and within a day's drive of nearly two-thirds of the United States' population. Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois.

Nearly one in six Americans lives in Indiana or its contiguous states. After years of population growth rates well below those of the United States as a whole, the pace of Indiana's population growth has increased in recent years. In fact, Indiana is experiencing net positive population migration. See "ECONOMIC AND DEMOGRAPHIC INFORMATION -Population".

Indiana's economy is increasingly diversified, containing a mix of manufacturing, services and agriculture. The State benefits from proximity to major markets and population centers -both national and international. Indiana can access those markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; in the south, through the Ohio and Mississippi rivers; as well as through a network of more than 11,000 miles of State and federal highways, including eight major interstate highways, and 4,250 miles of railroad tracks. The State's economy is further served by 114 public use airports, including Indianapolis International Airport, with 350 passenger and 70 cargo flights scheduled each day, and ports on Lake Michigan and the Ohio River. See "OTHER INFORMATION."

Indiana's fiscal policy is aimed at maintaining strong, unappropriated working (or cash) balances in its Rainy Day and combined General and Property Tax Replacement funds, while adequately funding essential State governmental functions, especially education and workforce development; wisely managing debt issuance and maintenance; and aggressively addressing unfunded liabilities in State pension, or retirement, systems, especially the State Teachers' Retirement Fund. As more fully described under "FINANCIAL RESULTS OF OPERATIONS," the State's fiscal policy has been a success. See also "STATE RETIREMENT SYSTEMS."

Indiana's debt burden remains well below the national median; the State's net tax-supported debt per capita is among the lowest in the United States. See "STATE INDEBTEDNESS."

The Comprehensive Annual Financial Report for the State Fiscal Year Ended June 30, 1997 is Exhibit A-1 to this Appendix A.

## **STATE GOVERNMENT**

### **Division of Powers**

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

### **Executive Department**

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly"), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is repassed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies which are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce and Commissioner of Agriculture.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Data Process Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

### **Legislative Department**

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The Speaker is selected by the members of the House of Representatives from among their ranks. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29.

The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40 calendar-day period. The Governor cannot limit the subject of any special session or its scope.

### **Judicial Department**

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

## **STATE FINANCES**

### **Fiscal Years**

The State's current fiscal year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

### **Accounting System**

The State maintains a central accounting system which processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 1997, together with the independent auditors' report thereon, are included in the Indiana Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997, attached hereto as Exhibit A-1. See "FINANCIAL RESULTS OF OPERATIONS—Introduction."

The accounting system is established by statute, which requires central purchasing, encumbrance authorization and other service functions to be provided by the State Department of Administration; budget control to be provided by the State Budget Agency; and accounting and disbursing functions to be provided by the State Auditor. Budgetary

control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes allotments quarterly. Each appropriation is designated by the General Assembly as Personal Services, Other Operating Expense or Total Operating Expense. Total Operating Expense includes both Personal Services and Other Operating Expenses. The Budget Agency allots the Other Operating Expense appropriation into eight major object classifications and maintains budgetary control by major object.

When a purchase requires the use of a purchase order, the purchase order will not be issued unless a sufficient allotment balance remains in the relevant major object. Warrants for payments not requiring the use of a purchase order are not processed and paid by the State Auditor unless a sufficient allotment balance remains in the relevant major object.

## **Fund Structure**

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

### ***Governmental Funds***

Governmental Funds are used to account for the State's general governmental activities. Governmental Funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The Special Revenue Funds include the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund is also reported by the State Auditor as a Special Revenue Fund. The Property Tax Replacement Fund is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the Property Tax Replacement Fund with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General and Property Tax Replacement funds are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Expenditures—Property Tax Relief."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units which are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

### ***Proprietary Funds***

Proprietary Funds are used to account for the flow of economic resources measurement focus. They use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies which render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

### ***Fiduciary Funds***

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources which are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

### ***Account Groups***

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all

fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

### **Budget Process**

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

**Budget Committee.** The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

**Budget Development.** The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

**Revenue Projections.** Revenue projections are prepared by the Indiana Economic Forum and the Revenue and Technical Forecast Committee. The Economic Forum is responsible for forecasting independent variables which may be employed by the Revenue and Technical Forecast Committee to derive the State's revenue projections. The Economic Forum is currently comprised of four leading economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forum have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Revenue and Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Forecast Committee. Members of the Forecast Committee are individuals with expertise in public finance from within State and local government, business interest groups and State-supported higher education institutions.

No formal contact occurs between the Economic Forum and the Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forum does provide the economic assumptions used by the Forecast Committee in preparing the State's revenue projections. The report presented by the Forecast Committee

is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

***Budget Report.*** The budget report and budget bills are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bills to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bills.

#### **Contingency Appropriations, Fiscal Controls**

By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

***Appropriations.*** Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

***Transfers.*** The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose which an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

***Contingency Appropriations.*** The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions, purposes or standards specifically imposed therein, or fixed by law, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from

such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State or by any State agency which has been so damaged so as to materially affect the public safety or utility thereof, or which has been destroyed, if such is necessary to discharge State functions or of any State agency, and if such damage or loss was caused by sabotage, fire, flood, wind, war, catastrophe or disaster;
3. repair of damage to, or replacement of, any building or equipment owned by the State or any State agency which has so depreciated or deteriorated or suffered obsolescence so as to become unusable, but is required in the discharge of necessary State functions or of any State agency, and if such depreciation, deterioration or obsolescence was not foreseen when appropriations were last made;
4. emergencies resulting from an increase of costs or any other factor or event that was not foreseen when appropriations were last made, which render insufficient appropriated funds for food, clothing, maintenance or medical care necessary for the operation of any State institution;
5. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, which render insufficient appropriated funds for the cost of instruction or other costs of operation of any of the State-supported higher education institutions; or
6. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds may authorize a purpose which was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

#### **State Board of Finance**

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness.

## **Rainy Day Fund**

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.
2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

See "FINANCIAL RESULTS OF OPERATIONS— Rainy Day Fund" and Table C for a discussion of Rainy Day Fund balances and transfers during the Fiscal Years described therein.

## **Cash Management, Investment**

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, Property Tax Replacement Fund, Rainy Day Fund and more than 60 other funds.

Interest bearing demand accounts are maintained in three Indianapolis banks to clear State warrants and to compensate for banking services rendered. Deposits are made directly by the State Treasurer or by State departments and agencies for credit to the State Treasury. Except for such demand accounts, all State funds are invested. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Title 5, Article 13 of the Indiana Code.

### **Audits**

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (i) audit all State and local units of government and (ii) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the Independent Auditor's Report therein.

## **STATE REVENUES AND EXPENSES**

### **Revenue Sources**

Primary General Fund revenues are gross retail ("sales") and use taxes and individual and corporate income taxes. The State sales and use tax rate was last increased in Fiscal Year 1983, and the State individual and corporate income tax rates were last increased, effective for Fiscal Years 1988 and 1987, respectively.

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except those reimbursed in arrears.

The following is a summary description of (i) sales and use taxes, (ii) individual and corporate income taxes and (iii) some of the other taxes levied by the State. (The revenues summarized herein are derived from the Budget Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables A, B and D.)

### ***Sales and Use Taxes***

A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain

property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Of the receipts collected, 59.2% of the sales and use taxes are credited to the General Fund, 40.0% to the Property Tax Replacement Fund, 0.8% to the Public Mass Transportation Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 1997, the \$3,112.9 million in receipts from the sales and use taxes deposited in the General Fund and Property Tax Replacement Fund constituted approximately 38.7% of the combined revenues of those funds.

#### ***Adjusted Gross Income Taxes—Individuals, Trusts and Estates***

Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and adjusted gross income of non-residents derived from Indiana sources is taxed at 3.4%. Some of the deductions and exemptions subtracted from federal adjusted gross income (except for trusts and estates) are: a \$1,000 deduction for the taxpayer, spouse and each dependent claimed on the federal return (plus an additional \$500 for each dependent child for calendar years 1997, 1998, 1999 and 2000); rent up to \$1,500; and income up to \$2,000 which is subject to an income tax by a political subdivision of another state.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 1997, the \$3,196.5 million in receipts from the adjusted gross income tax on individuals constituted approximately 39.7% of the combined revenues of the General Fund and Property Tax Replacement Fund.

#### ***Corporate Income Taxes***

There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) which derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the Property Tax Replacement Fund. See "FINANCIAL RESULTS OF OPERATIONS—Expenditures—Property Tax Relief."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

All gross income tax revenues are credited to the General Fund. All receipts from the supplemental net income tax are credited to the General Fund. For Fiscal Year ended June 30, 1997, corporate income and financial institutions tax receipts transferred to the General Fund were \$999.3 million and constituted approximately 12.4% of the combined revenues of the General Fund and Property Tax Replacement Fund.

#### ***Other Taxes***

Insurance taxes include a premium tax and a fire insurance tax. Domestic insurance companies may elect to pay the corporate gross income tax rather than the premium tax. Receipts of the premium tax are credited to the General Fund, while receipts of the fire insurance tax are credited to the State Fire Marshall Fund for payment of expenses of building safety, fire prevention and firefighting.

For the Fiscal Year ended June 30, 1997, General Fund receipts from insurance taxes were \$136.3 million and constituted approximately 1.7% of the combined revenues of the General Fund and Property Tax Replacement Fund.

The inheritance tax is assessed upon certain property transfers related to the transferor's death. Exemptions apply. Of inheritance taxes collected, 92.0% of resident taxes and 100% of nonresident taxes are credited to the General Fund. The remaining 8.0% of resident taxes remain in the treasury of the collecting county.

An estate tax is assessed at the time of a decedent's death if the federal credit for state death tax allowable to the decedent's estate exceeds the total State death taxes actually paid as a result of the decedent's death. All receipts of the estate tax are credited to the General Fund.

For the Fiscal Year ended June 30, 1997, General Fund receipts from the inheritance and estate taxes were \$115.4 million and constituted approximately 1.4% of the combined revenues of the General Fund and Property Tax Replacement Fund.

The cigarette tax is imposed upon the sale, exchange, bartering, furnishing, giving away, disposing, use, consumption or possession of cigarettes (and related papers, wrappers and tubes) within Indiana. The State also imposes a tobacco products tax. Exemptions apply in each instance. Of the cigarette and tobacco products tax receipts collected, 45.2% is credited to the General Fund and the remainder is dedicated to other funds for specified uses. Under certain circumstances, the General Fund allocation will be reduced.

For the Fiscal Year ended June 30, 1997, General Fund receipts from these taxes were \$57.5 million and constituted approximately 0.7% of the combined revenues of the General Fund and Property Tax Replacement Fund.

Alcoholic beverage taxes are based on gallons of beer, liquor, wine, other alcoholic mixed beverages, liquor malt or wort sold in Indiana. Of the alcoholic beverage taxes collected, 50.0% are credited to the General Fund and 50.0% are distributed among cities and towns within the State according to population.

For the Fiscal Year ended June 30, 1997, General Fund receipts from these taxes were \$12.5 million and constituted approximately 0.16% of the combined revenues of the General Fund and Property Tax Replacement Fund.

### ***Lottery, Gaming Revenues***

By statute, certain revenues from the Hoosier Lottery and the riverboat gaming wagering tax, horse racing pari-mutual wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Lottery and Gaming Surplus Account (the "Surplus Account") of the Build Indiana Fund, which was established by the General Assembly, in 1989, when the Hoosier Lottery was authorized and began operations.

Since Fiscal Year 1990, \$1,209.0 million of Gaming Revenues have been transferred to the State. In Fiscal Year 1997, Gaming Revenues totaling \$253.5 million were deposited in the Surplus Account from the following sources:

Hoosier Lottery	\$141.1 million(1)
Riverboat gaming	98.6 million
Horse racing	2.6 million
Charity gaming	3.1 million
Interest earnings	8.1 million

- (1) An additional \$40.0 million of Hoosier Lottery revenues were dedicated to State and local pension relief—\$30.0 million to the State Teachers' Retirement Fund and \$10.0 million to the Local Police and Fire Pension Relief Fund. See "STATE RETIREMENT SYSTEMS."

Source: State Budget Agency.

All Gaming Revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations.

At present, the highest distribution priority is to the States's counties for motor vehicle excise tax replacement—effectively providing for a substantial cut in the excise tax charged on motor vehicles—\$149.5 million in Fiscal Year 1997.

Second priority distributions are currently made to the:

Indiana Technology Fund—\$20.0 million in Fiscal Year 1997— to help schools and libraries expand their technological capabilities; and

Local Road and Street Account of the Motor Vehicle Highway Fund—\$30.0 million in Fiscal Year 1997—to help Hoosier communities fund additional road and street improvements.

Finally, remaining Gaming Revenues are made available to fund State and local capital projects, as authorized by the General Assembly. In Fiscal Year 1997, approximately \$19.0 million of Gaming Revenues were distributed for such projects.

## Expenditures

While budgetary control over expenditures is maintained by object classification, expenditures are reported by function for general purpose financial reporting, to reflect the cost of types of services provided by government. The functional classifications used in the General Fund are: General Government, Public Safety, Conservation and Environment, Economic Development, Transportation, Health and Human Services, Education and Distributions.

Each State agency is assigned a specific functional classification and all expenditures by the agency are reported under the assigned classification. Examples of agencies, types of agencies or other uses under each classification are as follows:

General Government	Legislature, Judiciary, Executive officers and State agencies with an administrative role, such as the State Budget Agency (and Committee) and Departments of Administration and Revenue.
Public Safety	State Police and Departments of Correction, Insurance and Labor.
Conservation and Environment	Departments of Environmental Management and National Resources.
Economic Development	Departments of Commerce and Workforce Development.
Transportation	Department of Transportation.
Health and Human Services	Family and Social Services Administration, Medicaid, Department of Health.
Education	Local School Aid, State-Supported Higher Education Institutions.
Distributions	Excise Taxes, Property Tax Replacement Credits (Property Tax Relief).

The expenditures summarized in this Appendix are derived from the Budget Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables A, B and D. Table A details General Fund revenues and expenditures for Fiscal Years 1993 through 1997 and sets forth projections for Fiscal Years 1998 and 1999. Table B describes Property Tax Replacement Fund revenues, expenditures and projections for the same years. Table D combines General Fund and Property Tax Replacement Fund revenues and expenditures and projections for the same years, and provides a more complete and accurate description of the State's discretionary spending, especially for local school aid and property tax relief, for those years.

**Local School Aid.** The State's largest operating expenditure—payable from both the General and Property Tax Replacement funds—is for local school aid. Local school aid payable from the General Fund in Fiscal Year 1997 amounted to approximately \$2,015.3 million and constituted approximately 33.55% of all General Fund expenditures. Local school aid payable from the Property Tax Replacement Fund in Fiscal Year 1997 amounted to approximately \$1,076.9 million and constituted approximately 56.7% of Property Tax Replacement Fund expenditures. Local school aid payable from the combined General Fund and Property Tax Replacement Fund in Fiscal Year 1997 amounted to approximately \$3,092.2 million and constituted approximately 39.1% of combined General Fund and Property Tax Replacement Fund expenditures.

**Higher Education.** The second largest operating expenditure—payable solely from the General Fund—is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal

to debt service due on qualified debt of such institutions. See "STATE INDEBTEDNESS—Obligations Involving Income Derived from Possible State Appropriations—Fee Replacement Appropriations to State Universities and Colleges." General Fund expenditures for higher education totaled approximately \$1,101.8 million in Fiscal Year 1997 and constituted approximately 18.3% of General Fund expenditures and 13.9% of combined General Fund and Property Tax Replacement Fund expenditures.

**Medicaid.** The third largest operating expenditure—payable solely from the General Fund—is the State's share of Medicaid assistance. The State's share of Medicaid totaled approximately \$931.3 million in Fiscal Year 1997 and constituted approximately 15.5% of General Fund expenditures and approximately 11.8% of combined General Fund and Property Tax Replacement Fund expenditures in Fiscal Year 1997. See "FINANCIAL RESULTS OF OPERATIONS—Expenditures—Medicaid."

**Property Tax Relief.** The fourth largest operating expenditure—payable solely from the Property Tax Replacement Fund—is for property tax relief. Property tax relief in the amount of \$822.1 million in Fiscal Year 1997 constituted approximately 43.3% of Property Tax Replacement Fund expenditures and 10.4% of combined General Fund and Property Tax Replacement Fund expenditures. See "FINANCIAL RESULTS OF OPERATIONS—Expenditures—Property Tax Relief."

**Other.** The balance of State expenditures are composed of a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities (in "Health and Human Services"), the State correctional system (in "Public Safety"), State administrative operations (in "General Government"), the State's share of public assistance payments (in "Health and Human Services"), the General Fund's one-half share of State Police costs (in "Public Safety"), State economic development programs (in "Economic Development") and General Fund expenditures for capital budget needs of the State (allocated in each functional classification). During Fiscal Year 1997, all other General Fund expenditures totaled approximately \$1,958.9 million and constituted approximately 32.6% of all General Fund expenditures and approximately 24.8% of combined General Fund and Property Tax Replacement Fund expenditures.

**Transfers.** In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (i) from the General Fund to the Property Tax Replacement Fund and the Rainy Day Fund or (ii) from the Rainy Day Fund to the Property Tax Replacement Fund and the General Fund. See "STATE FINANCES—Fund Structure" and "—Rainy Day Fund" and "FINANCIAL RESULTS OF OPERATIONS."

## FINANCIAL RESULTS OF OPERATIONS

### Introduction

This discussion and Tables A, B, C and D summarize the actual results of State operations for the Fiscal Years ended June 30, 1993, through June 30, 1997 (the "Discussion Period"), as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 1998 and 1999, for the General Fund, Property Tax Replacement Fund and Rainy Day Fund. These three funds are the primary funds into which general purpose tax revenues are deposited or transferred.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations during the Fiscal Year or liquidate liabilities existing at the end of the Fiscal Year. Expenditures and liabilities are recognized upon receipt of goods and services.

There is not a significant difference in the method of accounting for major tax receipts between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

The State Auditor's annual reports are audited by the State Board of Accounts in accordance with generally accepted auditing standards. See the Independent Auditor's Report included in Exhibit A-1.

## Revenues

During the Discussion Period, the State saw strong revenue growth. State tax rates were not increased at any time during the Discussion Period. However, as a result of the State's strong—record—unappropriated working (or cash) balances, the State has reduced taxes through targeted cuts, including the following authorized by the 1997 General Assembly: individual income taxes were reduced by \$56.9 million in Fiscal Years 1998 and 1999 through the addition of an additional \$500 deduction for each dependent (other than a spouse) claimed by State taxpayers on their federal returns; a State earned income tax deduction for low-income taxpayers was created at a cost of \$28.0 million in Fiscal Years 1998 and 1999; and inheritance taxes were eliminated on the first \$100,000 of estate property transferred to eligible beneficiaries at a cost of \$16.5 million in Fiscal Years 1998 and 1999. In addition, the homestead credit available to Indiana homeowners was increased from 4.0% to 10.0% at a cost of \$147.9 million in Fiscal Years 1998 and 1999. See "Property Tax Relief" for a description of the impact of such relief, including increases in the homestead credit.

Certain of the tax reductions terminate automatically. Absent further legislative action, the additional deduction for certain dependents and earned income tax deduction will end after calendar year 2000, and the homestead tax credit increase will be reduced to 4.0% in 2002. See "STATE REVENUES AND EXPENSES—Revenue Sources."

Individual and corporate income tax receipts, as well as sales and use tax receipts, increased in each Fiscal Year of the Discussion Period. The strong State economy is believed to be responsible for the growth in State revenues.

### Revenue Growth

<u>Fiscal Year</u>	<u>Individual Income Tax Receipts</u>	<u>Corporate Income Tax Receipts</u>	<u>Sales and Use Tax Receipts</u>
1993	7.4%	7.4%	5.5%
1994	5.4	10.6(1)	8.9
1995	8.9	19.0	8.0
1996	7.2	3.3	5.6
1997	7.8	1.8	5.8

- (1) The State received an additional \$106.0 million of corporate income tax receipts in Fiscal Year 1994 (rather than Fiscal Year 1995). These additional receipts, which are not reflected above, but are reflected in Tables A, B and D, as applicable, resulted from a change in State law that caused corporations to file and pay their July 31, 1994, corporate income tax payments on or before June 20, 1994.

## Expenditures

During much of the Discussion Period, the State has been able to increase combined General Fund and Property Tax Replacement Fund expenditures for local school aid, higher education, property tax relief and essential governmental services, while building and maintaining strong unappropriated working (or cash) balances. Building and maintaining such balances is one of the chief aims of State fiscal policy.

General Fund revenues and expenditures are summarized in Table A. ("All Other" expenditures shown in Table A do not include the State's property tax relief program and some local school aid.) Property Tax Replacement Fund revenues and expenditures are summarized in Table B. See "Property Tax Relief."

**Table A**  
**General Fund**  
(millions of \$)

	Fiscal Year Ended June 30,						
	1993	1994	1995	1996	1997	1998(1)	1999(1)
<b>Revenues</b>							
Sales and Use Taxes	\$1,402.8	\$1,531.8	\$1,655.6	\$1,751.2	\$1,831.7	\$1,942.2	\$2,035.2
Adjusted Gross Income							
Tax-Individuals	2,412.5	2,541.9	2,767.7	2,966.3	3,196.5	3,277.7	3,501.9
Corporate Income							
Taxes	633.4	859.4	888.6	881.9	894.3	1,004.5	1,036.6
Other Taxes	<u>282.9</u>	<u>291.8</u>	<u>307.4</u>	<u>299.1</u>	<u>321.7</u>	<u>322.5</u>	<u>312.4</u>
Total Taxes	\$4,731.6	\$5,224.9	\$5,619.3	\$5,898.5	\$6,244.2	\$6,546.9	\$6,886.1
Interest Income(2)	51.0	46.5	92.1	141.1	146.5	137.0	137.0
Other Revenue(3)	<u>301.5</u>	<u>377.1</u>	<u>748.2</u>	<u>239.6</u>	<u>268.0</u>	<u>270.0</u>	<u>270.0</u>
Total Revenue	\$5,084.1	\$5,648.5	\$6,459.6	\$6,279.2	\$6,658.7	\$6,953.9	\$7,293.1
<b>Expenditures</b>							
Local School Aid	\$1,867.8	\$1,889.5	\$2,034.3	\$1,940.8	\$2,015.3	\$2,299.9	\$2,406.8
Higher Education	974.7	991.2	1,006.9	1,104.2	1,101.8	1,189.7	1,241.7
Medicaid	874.6	1,093.4	873.9	860.9	931.3	929.2	987.3
All Other	<u>1,204.8</u>	<u>1,164.4</u>	<u>1,297.6</u>	<u>1,513.8</u>	<u>1,958.9</u>	<u>2,047.6</u>	<u>2,042.6</u>
Subtotal Expenditures	\$4,921.9	\$5,138.5	\$5,212.7	\$5,419.7	\$6,007.3	\$6,466.4	\$6,678.4
Less: Reversions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50.0</u>	<u>50.0</u>
Total Expenditures	\$4,921.9	\$5,138.5	\$5,212.7	\$5,419.7	\$6,007.3	\$6,416.4	\$6,628.4
Excess (Deficiency) of Revenues over Expenditures	\$ 162.2	\$ 510.0	\$1,246.9	\$ 859.5	\$ 651.4	\$537.5	\$664.7
Less: Transfers to (from):							
Property Tax Replacement Fund	317.8	397.6	491.9	407.3	493.2	622.8	762.3
Rainy Day Fund	<u>(41.4)</u>	<u>22.1</u>	<u>155.7</u>	<u>106.7</u>	<u>19.8</u>	<u>48.7</u>	<u>21.9</u>
Total Transfers	276.4	419.7	647.6	514.0	513.0	671.5	784.2
Increase (Decrease) in Fund Balance	\$(114.2)	\$ 90.3	\$ 599.3	\$ 360.5	\$ 138.4	(\$134.0)	(\$119.5)
Beginning Balance (4)	\$ 303.9	\$ 189.7	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,244.2
Ending Balance (4)	\$ 189.7	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,244.2	\$1,124.8

- (1) Revenues are those projected by the Revenue and Technical Forecast Committee on December 19, 1997; expenditures are those authorized by the 1997 General Assembly. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Interest assumed at approximately 5.5% for Fiscal Years 1998 and 1999.
- (3) Includes certain surplus Hoosier Lottery revenues in Fiscal Year 1994. Also includes refunds of prior year expenditures, reimbursements of prior year expenditures, return of escrows to the General Fund and prior year revenue transferred to the General Fund in Fiscal Year 1996. Also includes \$345.0 million of extraordinary revenues in Fiscal Year 1995—\$155.0 million transferred from a prior Medicaid reserve (not otherwise reported on Table A or Table D), \$50.6 million of federal reimbursements of administrative and program expenses of the State Family and Social Services Administration, \$85.1 million transferred upon dissolution of a court-ordered, litigation-related escrow fund and \$54.3 million of court and related fee revenues that could have been transferred to the General Fund in prior Fiscal Years.
- (4) Includes a \$180.0 million tuition reserve for Fiscal Year 1993 (actual), a \$190.0 million tuition reserve for Fiscal Year 1994 (actual), a \$200.0 million tuition reserve for Fiscal Year 1995 (actual), a \$215.0 million tuition reserve for Fiscal Year 1996 (actual), a \$240.0 million tuition reserve for Fiscal Year 1997 (actual) and a \$240.0 million tuition reserve for each of Fiscal Years 1998 (projected) and 1999 (projected).

Note: Totals may not add as a result of rounding.

Source: State Budget Agency.

### ***General***

The State's strong unappropriated working (or cash) balances have permitted the State to increase expenditures during the Discussion Period to fund essential governmental functions. State expenditure increases during the Discussion Period might be described in three broad categories:

- those increases resulting from significant unfulfilled or deferred demands created during the 1990-91 national economic recession, including State capital construction and rehabilitation projects
- those reflecting the State's commitment to invest in primary, secondary and higher education, workforce development (including worker training and "welfare to work" programs), targeted economic (including infrastructure) development and public safety, including increased corrections spending
- one-time expenditures, particularly those aimed at aggressively addressing the unfunded liability of the State Teachers' Retirement Fund

As a result of the 1990-91 national economic recession, the State used revenues that would have been used for excise tax relief and capital construction and rehabilitation projects to balance the State budget. As a result, some of the expenditure growth during the Discussion Period reflects such unfulfilled or deferred demands.

Other spending growth during the Discussion Period simply reflects longstanding State fiscal policy and resulting commitments, especially those for education and property tax relief. See "Property Tax Relief" and "Medicaid."

Finally, strong revenue growth and creation of new revenue sources, including Hoosier Lottery and gaming revenues, gave rise to a renewed State commitment to address unfunded State pension liabilities. Substantial General

Funds and other revenues have been appropriated to fund the Pension Stabilization Fund during the Discussion Period. See "STATE RETIREMENT SYSTEMS—State Teachers' Retirement Fund."

In addition, the State has made additional "one-time" appropriations and expenditures for other essential governmental purposes, including a \$77.0 million appropriation to address the State's "year 2000" computer problems.

### ***Property Tax Relief***

The Property Tax Replacement Fund (the "PTRF") was created by statute in Fiscal Year 1973. Actual and projected PTRF revenues and expenditures for the Discussion Period are summarized on Table B. Revenue to the PTRF is generated from 40% of sales and use tax receipts and a portion of corporate adjusted gross income tax receipts. See "STATE REVENUES AND EXPENSES—Revenue Sources—Sales and Use Taxes" and "—Corporate Income Taxes."

The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid. As a matter of longstanding fiscal policy, the General Assembly pays for increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF.

To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. During the Discussion Period, General Fund transfers have been made to balance the PTRF in amounts ranging from \$317.8 million (in Fiscal Year 1993) to \$493.2 million (in Fiscal Year 1997). It is expected that substantial General Fund transfers will also be required in future Fiscal Years. See "STATE FINANCES—Fund Structure—Fiduciary Type Funds—Expendable Trust Funds."

**Table B**  
**Property Tax Replacement Fund**  
(millions of \$)

	Fiscal Year Ended June 30,						
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998(1)</u>	<u>1999(1)</u>
Revenues							
Sales and Use Taxes	\$ 965.9	\$1,048.6	\$1,130.5	\$1,191.1	\$1,281.2	\$1,320.9	\$1,384.1
Corporate Income Taxes	88.3	45.1	61.8	100.1	105.0	30.0	30.0
Interest Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$1,054.2	\$1,093.7	\$1,192.3	\$1,291.2	\$1,386.2	\$1,350.9	\$1,414.1
Expenditures							
Local School Aid	\$ 742.7	\$ 830.0	\$ 963.3	\$1,020.3	\$1,076.9	\$1,153.3	\$1,234.4
Property Tax Credits(2)	<u>629.3</u>	<u>661.4</u>	<u>846.7</u>	<u>784.3</u>	<u>822.1</u>	<u>870.1</u>	<u>962.8</u>
Total Expenditures	\$1,372.0	\$1,491.3	\$1,810.0	\$1,804.6	\$1,899.0	\$2,023.4	\$2,197.2
Excess (Deficiency) of Revenues over Expenditures	\$ (317.8)	\$(397.6)	\$(617.7)	\$(513.4)	\$(512.8)	\$(672.5)	\$(783.1)
Plus Transfers from:							
Rainy Day Fund	-	-	125.8	106.1	19.6	49.7	20.8
General Fund	<u>317.8</u>	<u>397.6</u>	<u>491.9</u>	<u>407.3</u>	<u>493.2</u>	<u>622.8</u>	<u>762.3</u>
Total Transfers	\$ 317.8	\$ 397.6	\$ 617.7	\$ 513.4	\$ 512.8	\$672.5	\$783.1
Increase (Decrease) in Fund Balance	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Beginning Balance	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Ending Balance	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0

- (1) Revenues are those projected by the Revenue and Technical Forecast Committee on December 19, 1997; expenditures are those authorized by the 1997 General Assembly. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) The State budget for Fiscal Years 1992 and 1993 authorized a new distribution schedule for PTRF Credits. The new distribution schedule provided for the distribution of approximately 40% of the Fiscal Year 1992 PTRF Credits in that Fiscal Year and the balance of such credits in Fiscal Year 1993. The new distribution schedule had the effect of reducing State Fiscal Year 1992 expenditures by \$131.8 million. However, the new distribution schedule was subsequently "rolled back" to pre-1990-91 national economic recession levels with an extraordinary one-time transfer of \$355.5 million from the General Fund to the PTRF at the end of Fiscal Year 1995. See "Expenditures" and "Fiscal Management."

Note: Totals may not add as a result of rounding.

Source: State Budget Agency.

### ***Medicaid***

Medicaid expenditures grew dramatically at the beginning of the Discussion Period. However, administrative rulemaking and legislative action beginning in Fiscal Year 1993 resulted in a number of significant cost containment initiatives designed to slow the growth in Medicaid expenditures. As a result, Medicaid expenditures declined in Fiscal Years 1995 and 1996 before increasing again in Fiscal Year 1997.

Medicaid appropriations for Fiscal Years 1998 and 1999 are reflected on Tables A and D; however, the State's Office of Medicaid Policy and Planning estimated on December 19, 1997, that such appropriations now exceed such Office's projections for Medicaid expenditures by \$32.9 million in Fiscal Year 1998 and \$17.9 million in Fiscal Year 1999.

### **Rainy Day Fund**

One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession.

As described under "STATE FINANCES—Rainy Day Fund," access to and balances in the Rainy Day Fund are determined by statutory formula, subject to future General Assembly action. During the Discussion Period, the Rainy Day Fund was funded at the maximum permitted by law in each of the last three Fiscal Years, and the Budget Agency projects that the Rainy Day Fund will continue to be funded at maximum lawful levels at the end of the current and following Fiscal Years.

**Table C**  
**Rainy Day Fund**  
**Schedule of Cash Flow**  
(millions of \$)

	Fiscal Year Ended June 30,						
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998(1)</u>	<u>1999(1)</u>
Beginning Cash Balance	\$328.6	\$300.6	\$370.3	\$419.3	\$439.7	\$466.1	\$486.8
Interest Earned(2)	12.7	16.1	18.2	18.8	25.7	21.0	21.9
Loans Made from Fund(3)	-	-	-	-	-	-	-
Loan Payments Received,							
Sale Proceeds(4)	0.7	31.5	0.9	0.9	0.7	0.7	0.7
Net Transfers(5)	<u>(41.4)</u>	<u>22.1</u>	<u>29.9</u>	<u>0.6</u>	<u>0.2</u>	<u>(1.0)</u>	<u>1.1</u>
Ending Cash Balance(6)	\$300.6	\$370.3	\$419.5	\$439.5	\$466.3	\$486.8	\$510.5
Maximum Allowable Fund Balance	\$344.1	\$393.8	\$419.3	\$439.5	\$466.3	\$486.8	\$510.5
Loans Outstanding(7)	\$ 35.5	\$ 4.0	\$ 3.3	\$ 2.8	\$ 2.1	\$1.4	\$0.7

- (1) Revenues upon which transfers are projected are those projected by the Revenue and Technical Forecast Committee on December 19, 1997; expenditures are those authorized by the 1997 General Assembly. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Interest assumed at 4.5% for Fiscal Years 1998 and 1999; includes interest payments received on loans made.
- (3) Reserved to reflect loans made out of the Rainy Day Fund during the Fiscal Year indicated. No loans were made during the Discussion Period, and no projections of loans are made for Fiscal Years 1998 and 1999.
- (4) Payments of principal received on loans made plus proceeds of the sale of a loan made to the City of Indianapolis, as more fully described in note 7.
- (5) Net Transfers reflect: (a) in Fiscal Year 1993, a \$41.4 million transfer to the General Fund to balance the State budget; (b) in Fiscal Year 1994, a \$22.1 million transfer from the General Fund; (c) in Fiscal Year 1995, a \$29.9 million transfer from the General Fund; (d) in Fiscal Year 1996, a \$106.7 million transfer from the General Fund and a \$106.1 million transfer to the Property Tax Replacement Fund; (e) in Fiscal Year 1997, a \$19.8 million transfer from the General Fund and a \$19.6 million transfer to the Property Tax Replacement Fund; (f) in Fiscal Year 1998, a projected \$48.7 million transfer from the General Fund and a projected \$49.7 million transfer to the Property Tax Replacement Fund; and (g) in Fiscal Year 1999, a projected \$21.9 million transfer from the General Fund and a projected \$20.8 million transfer to the Property Tax Replacement Fund.
- (6) The amount of loans outstanding is not reflected in the ending cash balance statements.
- (7) From time to time, the General Assembly has authorized the State Board of Finance to lend moneys in the Rainy Day Fund to specified local governments for specified purposes. The aggregate amount of loans authorized by the General Assembly totaled \$55.3 million; however, loans of only \$37.7 million, including

one at no interest, were actually made. In February 1993, the General Assembly caused the State Board of Finance to sell, at par plus deferred and accrued interest, the loan made from the Rainy Day Fund to the City of Indianapolis. The sale proceeds—approximately \$33.4 million (including interest)—were deposited in the Rainy Day Fund. No further loans or grants from the Rainy Day Fund have been authorized by the General Assembly; however, future General Assemblies may authorize loans or grants from the Rainy Day Fund.

Note: Totals may not add as a result of rounding.

Source: State Budget Agency.

## Fund Balances

During the Discussion Period, combined General Fund and Property Tax Replacement Fund unappropriated working (or cash) balances—shown as "Ending Balance" on Table D—have ranged from \$189.7 million (in Fiscal Year 1993) to \$1,378.2 million (in Fiscal Year 1997). These balances include "tuition reserves" as described and summarized below and in note (3) on Tables A and D, but do not include any Rainy Day Fund balances described and summarized on Table C.

The tuition reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. The tuition reserve was maintained at \$120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the tuition reserve in each of Fiscal Years 1989 through 1997.

Tuition Reserve	
Fiscal <u>Year</u>	Amount <u>(millions of \$)</u>
1993	180.0
1994	190.0
1995	200.0
1996	215.0
1997	240.0

Rainy Day Fund balances are reflected on Table C. (See "Ending Cash Balance" thereon and note 6.) The Rainy Day Fund is currently funded at the maximum allowable balance, \$466.3 million, and the Budget Agency projects that the actual balance will increase, along with the maximum allowable balance, in Fiscal Years 1998 and 1999.

On June 30, 1997, the State's unappropriated working (or cash) balances were at record levels, 23.2% of operating revenues (such revenues include total combined General Fund and Property Tax Replacement Fund revenues, as described on Table D). During the Discussion Period, such balances ranged from 8.0% at the end of Fiscal Year 1993, immediately following the 1990-91 national economic recession, to 23.2% at the end of Fiscal Year 1997. However, the Budget Agency projects significant declines in the State's unappropriated working (or cash) balances at the end of Fiscal Years 1998 and 1999, as described on Table D.

## Fiscal Management

Indiana's current fiscal health is supported by a fiscal policy dedicated to maintaining strong unappropriated working (or cash) balances, prudently issuing and managing debt and aggressively addressing unfunded liabilities in State retirement, or pension, plans. The State's fiscal health is believed to be further supported by State General and other fund appropriations for, or investments in, primary, secondary and higher education, workforce development (including worker training and welfare to work programs) and targeted economic (including infrastructure) development.

State fiscal policy is driven by a desire to continue to manage the State's strong fiscal resources well in both good economic times and bad. As a result of the 1990-91 national economic recession, the State Budget Agency estimated that the State received \$1,250.0 million less individual and corporate income and sale and use tax receipts in fiscal years 1991, 1992 and 1993 than the State would have received if such recession had not occurred. The State, in confronting the \$1,250.0 million revenue gap resulting from such recession, reduced spending by \$320.2 million, reduced or restrained spending growth in State agency budgets, dedicated surplus Hoosier Lottery revenues to local school aid, postponed a scheduled excise tax reduction program, delayed approximately \$303.6 million of distributions to local governments and schools, authorized debt, rather than General Fund, financing of capital projects, refinanced some State-related indebtedness and authorized transfers from the Rainy Day Fund to the General Fund to ensure a balanced State budget.

Since the 1990-91 recession, unappropriated working (or cash) balances have grown to record levels, the State is somewhat less dependent upon sales and use and corporate income tax receipts and substantial additional Hoosier Lottery and other gaming revenues are potentially available to relieve pressures on State general purpose tax revenues. That, together with a more diverse economy, causes the Budget Agency to believe that the State is better prepared to manage the State budget during a future national economic recession. See "ECONOMIC AND DEMOGRAPHIC INFORMATION—Economy."

### **Pending Legislation**

A number of proposals have been introduced in the Indiana Senate and House of Representatives that would have the effect of reducing State revenues on a one-time basis during the current State budget or for the current and future budgets. If one or more of such proposals is enacted into law, the projections of the State's unappropriated working (or cash) balances, as described herein, might be reduced. However, the fiscal impact of all such proposals cannot be predicted at this time. In addition, the success or failure of any of such proposals cannot be predicted at this time.

**Table D**  
**Combined General Fund and Property Tax Replacement Fund**  
(millions of \$)

	Fiscal Year Ended June 30,						
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998(1)</u>	<u>1999(1)</u>
<b>Revenues</b>							
Sales and Use Taxes	\$2,368.7	\$2,580.4	\$2,786.1	\$2,942.3	\$3,112.9	\$3,263.2	\$3,419.3
Adjusted Gross Income							
Tax-Individuals	2,412.5	2,541.9	2,767.7	2,966.3	3,196.5	3,277.7	3,501.9
Corporate Income Taxes	721.7	904.5	950.4	982.0	999.3	1,034.5	\$1,066.6
Other Taxes	<u>282.9</u>	<u>291.8</u>	<u>307.4</u>	<u>299.1</u>	<u>321.7</u>	<u>322.5</u>	<u>312.4</u>
Total Taxes	\$5,785.8	\$6,318.6	\$6,811.6	\$7,189.7	\$7,630.4	\$7,897.9	\$8,300.2
Interest Income (2)	51.0	46.5	92.1	141.1	146.5	137.0	137.0
Other Revenue(3)	<u>301.5</u>	<u>377.1</u>	<u>748.2</u>	<u>239.6</u>	<u>268.0</u>	<u>270.0</u>	<u>270.0</u>
Total Revenue	\$6,138.3	\$6,742.2	\$7,651.9	\$7,570.4	\$8,044.9	\$8,304.9	\$8,707.2
<b>Expenditures</b>							
Local School Aid	\$2,610.5	\$2,719.5	\$2,997.6	\$2,961.1	\$3,092.2	\$3,453.2	\$3,641.2
Higher Education	974.7	991.2	1,006.9	1,104.2	1,101.8	1,189.7	1,241.7
PTRF Credits	629.3	661.4	846.7	784.3	822.1	870.1	962.8
Medicaid	874.6	1,093.4	873.9	860.9	931.3	929.2	987.3
All Other	<u>1,204.8</u>	<u>1,164.4</u>	<u>1,297.6</u>	<u>1,513.8</u>	<u>1,958.9</u>	<u>2,047.6</u>	<u>2,042.6</u>
Subtotal Expenditures	\$6,293.9	\$6,629.8	\$7,022.7	\$7,224.3	\$7,906.3	\$8,489.8	\$8,875.6
Less: Reversions	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>50.0</u>	<u>50.0</u>
Total Expenditures	\$6,293.9	\$6,629.8	\$7,022.7	\$7,224.3	\$7,906.3	\$8,439.9	\$8,825.6
Excess (Deficiency) of Revenues over Expenditures	\$ (155.6)	\$ 112.4	\$ 629.2	\$ 346.1	\$ 138.6	\$ (135.0)	\$ (118.4)
Less: Transfers to (from)							
Rainy Day Fund	<u>(41.4)</u>	<u>22.1</u>	<u>29.9</u>	<u>0.6</u>	<u>0.2</u>	<u>(1.0)</u>	<u>1.1</u>
Total Transfers	\$ (41.4)	\$ 22.1	\$ 29.9	\$ 0.6	\$ 0.2	\$ (1.0)	\$ 1.1
Increase (Decrease) in Fund Balance	\$ (114.2)	\$ 90.3	\$ 599.3	\$ 360.5	\$ 138.4	\$ (134.0)	\$ (119.5)
Beginning Balance (4)	\$ 303.9	\$ 189.7	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,244.2
Ending Balance (4)	\$ 189.7	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,244.2	\$1,124.8

- (1) Revenues are those projected by the Revenue and Technical Forecast Committee on December 19, 1997; expenditures are those authorized by the 1997 General Assembly. Amounts are merely projections, and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Interest assumed at approximately 5.5% for Fiscal Years 1998 and 1999.
- (3) Includes certain surplus Hoosier Lottery revenues in Fiscal Year 1994. Also includes refunds of prior year expenditures, reimbursements of prior year expenditures, return of escrows to the General Fund and prior year revenue transferred to the General Fund in Fiscal Year 1996. Also includes \$345.0 million of extraordinary revenues in Fiscal Year 1995—\$155.0 million transferred from a prior Medicaid reserve (not otherwise

reported on Table A or Table D), \$50.6 million of federal reimbursements of administrative and program expenses of the State Family and Social Services Administration, \$85.1 million transferred upon dissolution of a court-ordered, litigation-related escrow fund and \$54.3 million of court and related fee revenues that could have been transferred to the General Fund in prior Fiscal Years.

- (4) Includes a \$180.0 million tuition reserve for Fiscal Year 1993 (actual), a \$190.0 million tuition reserve for Fiscal Year 1994 (actual), a \$200.0 million tuition reserve for Fiscal Year 1995 (actual), a \$215.0 million tuition reserve for Fiscal Year 1996 (actual), a \$240.0 million tuition reserve for Fiscal Year 1997 (actual) and a \$240.0 million tuition reserve for each of Fiscal Years 1998 (projected) and 1999 (projected).

Note: Totals may not add as a result of rounding.

Source: State Budget Agency.

## STATE INDEBTEDNESS

### **The State**

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "STATE FINANCES—State Board of Finance."

### **Other Debt, Obligations**

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. See, especially, "Obligations Involving Income Derived from Possible State Appropriations—State Office Building Commission" and "Indiana Transportation Finance Authority: Highway Financing."

### **Pending Legislation**

Legislation has been introduced in the Indiana Senate and House of Representatives that would consolidate a number of State-related issuers of debt into a new entity, designated the Indiana Finance Authority. As introduced, such legislation does not affect the current authority or powers of such issuers; their authority and powers would simply be exercised by the new Indiana Finance Authority. The success or failure of such legislation cannot be predicted at this time.

### **Obligations Involving Income Derived from Possible State Appropriations**

Certain entities, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce), have entered into use and occupancy agreements or lease agreements that are payable primarily from possible appropriations by the General Assembly of the State's general funds. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

#### ***State Office Building Commission***

The State Office Building Commission, a public body corporate and politic separate from the State, is authorized to issue revenue bonds to finance or refinance the acquisition, construction and equipping of buildings, structures or improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (i) housing the personnel or activities of State agencies or branches of State government; (ii) providing transportation or parking for State employees or persons having business with State government; or (iii) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

<u>Facility</u>	<u>Project Description</u>	<u>Principal Amount of Revenue Bonds Outstanding (1)</u>
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities	\$49,470,690(2)
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility	\$127,819,520(3)
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility	\$133,147,747(4)
Wabash Valley Correctional Institution; Rockville Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facility; acquisition, construction, renovation and equipping of women's correctional facility(5)	\$195,915,000(6)

- (1) As of January 2, 1998; excludes accreted value in excess of original issued amount of capital appreciation bonds.
- (2) Consisting of: (i) \$26,669,824 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1990A, issued May 23, 1990; and (ii) \$42,410,000 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1993A, issued September 8, 1993.
- (3) Consisting of: (i) \$18,063,800 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1990C, issued May 23, 1990; (ii) \$110,675,000 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1990D, issued January 3, 1991; and (iii) \$28,440,000 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1993C, issued September 8, 1993.
- (4) Consisting of: (i) \$77,123,542 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1990B, issued May 23, 1990; and (ii) \$107,555,000 original aggregate principal amount of Capitol Complex Revenue Bonds, Series 1993B, issued September 8, 1993.
- (5) Women's correctional facility expected to be completed in May 1998; all other facilities have been completed.
- (6) Consisting of: (i) \$102,015,000 original aggregate principal amount of Correctional Facilities Program Revenue Bonds, Series 1991, issued December 5, 1991, which Series 1991 bonds are expected to be refunded by the Commission in February 1998; (ii) \$54,025,000 original aggregate principal amount of Correctional Facilities Program Revenue Bonds, Series 1995A, issued August 2, 1995; (iii) \$47,975,000 original aggregate principal amount of Correctional Facilities Program Revenue Bonds, Series 1995B, issued October 5, 1995; and (iv) any bonds issued by the Commission to refund such Series 1991 bonds.

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or part of such facility) financed with the proceeds thereof will be payable, principally from rental payments on such facility (or part of such facility) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or part of such facility). The term of each such use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly. There is and can be under Indiana law no requirement for the General Assembly to make appropriations for any such facility in any Fiscal Year.

No holder of any revenue bond issued by the Commission may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by the Commission do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation.

The State Office Building Commission expects to refinance its Correctional Facilities Program Revenue Bonds, Series 1991, and expects to issue its Facilities Revenue Refunding Bonds, Series 1998A, in February 1998, to effect such refinancing.

The State Office Building Commission has been authorized by the General Assembly to issue additional bonds to finance: (1) an additional medium security correctional facility for adult males in Miami County, Indiana; (2) an additional correctional facility for male juveniles near Pendleton, Indiana; (3) a special needs facility to be converted from an existing State institution near New Castle, Indiana; and (4) a new State museum in Indianapolis. The Commission is expected to provide and finance such facilities. Short-term, or construction, financing for such facilities is anticipated to be obtained through issuance and sale by the Commission of "Hoosier Notes." Initially, \$100.0 million aggregate principal amount of Hoosier Notes are expected to be authorized to be issued by the Commission, beginning in February 1998.

The Commission would be expected to refinance the Hoosier Notes through issuance and sale of additional bonds. However, the type, amount and timing of any such additional bonds are subject to a number of conditions that cannot be predicted at present, including the evolutionary nature of such facilities, the scheduled completion of property acquisition, architectural and engineering work, the level of investment rates, conditions in the credit markets, costs of construction and the financial condition of the State.

#### ***Indiana Transportation Finance Authority: Highway Financing***

The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (i) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (ii) lease such projects to the Indiana Department of Transportation (the "Department of Transportation"), formerly the Indiana Department of Highways; and (iii) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana, as described below:

<u>Series</u>	<u>Issued</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount(1)</u>
1988A	June 23, 1988	\$ 62,915,000	\$ 2,230,000
1988B	September 28, 1988	64,315,000	2,225,000
1990A	June 27, 1990	72,498,391	58,553,391
1992A	February 27, 1992	74,035,000	43,870,000
1993A	April 20, 1993	193,531,298	173,391,297
1996B	January 9, 1997	27,110,000	26,895,000

(1) As of January 2, 1998; excludes accreted value of capital appreciation bonds.

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an

indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable by the Department of Transportation solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use. There is and can be under State law no requirement for the General Assembly to make any appropriation under any such master lease agreement in any Fiscal Year.

In 1997, the General Assembly authorized the TFA to issue bonds for additional State highway projects, and the TFA is expected to issue approximately \$400.0 million aggregate principal amount of revenue bonds to finance the "CrossRoads 2000" program to increase capacity of State highways.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "Indiana Transportation Finance Authority: Aviation Financing" and "Contingent Obligations—Indiana Transportation Finance Authority: Toll Road Financing."

#### ***Indiana Transportation Finance Authority: Aviation Financing***

In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (i) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (ii) for fixed based operations, (iii) for general aviation or military users and (iv) for aviation maintenance and repair facilities.

**Airport Facilities.** On February 11, 1992, the TFA issued \$201,320,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, Series A (the "1992 Airport Facilities Bonds"). On June 13, 1995, the TFA issued \$29,720,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, 1995 Series A (the "1995 Airport Facilities Bonds"). On December 18, 1996, the TFA issued \$137,790,000 aggregate principal amount of Airport Facilities Lease Revenue Refunding Bonds, 1996 Series A (the "1996 Airport Facilities Bonds"), to advance refund a portion of the 1992 Airport Facilities Bonds (the 1992 Airport Facilities Bonds, the 1995 Airport Facilities Bonds and the 1996 Airport Facilities Bonds, collectively, the "Airport Facilities Bonds"). As of January 2, 1998, \$232,905,000 aggregate principal amount of the Airport Facilities Bonds remains outstanding.

The 1992 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at Indianapolis International Airport (the "Phase I Facility"), and the 1995 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping additional improvements (the "Phase IA Facility"). The TFA expects that United Air Lines, Inc., will use the Phase I Facility and Phase IA Facility (collectively, the "Airport Facilities") as a major aircraft maintenance and overhaul facility. At present, United is using the Airport Facilities for aircraft maintenance operations.

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals

are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

Neither the TFA, the Indianapolis Airport Authority, the trustee for the Airport Facilities Bonds nor holders of the Airport Facilities Bonds may compel funds to be appropriated or to be made available to pay any rentals under the Airport Facilities Lease. The Airport Facilities Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

Aviation Technology Center. On December 22, 1992, the TFA issued \$11,630,000 aggregate principal amount of Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds"). As of January 2, 1998, \$10,880,000 aggregate principal amount of the Aviation Technology Center Bonds remains outstanding.

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

Recently, a Boeing 737 aircraft was added to the Aviation Technology Center for use for educational purposes by Vincennes and Purdue Universities.

Neither the TFA, the Indianapolis Airport Authority, the trustee for the Aviation Technology Center Bonds nor holders of the Aviation Technology Center Bonds may compel funds to be appropriated or to be made available to pay any rentals under the Airport Facilities Lease. The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "Indiana Transportation Finance Authority: Highway Financing" and "Contingent Obligations—Indiana Transportation Finance Authority: Toll Road Financing."

### ***Fee Replacement Appropriations to State Universities and Colleges***

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee

Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The (i) estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 1997, which would be eligible for Fee Replacement Appropriations, and (ii) amount of Fee Replacement Appropriations with respect thereto for Fiscal Years 1998 and 1999, are shown below.

	Estimated Amount of Debt <u>Outstanding</u>	Fiscal Year 1998 Fee Replacement <u>Appropriation</u>	Fiscal Year 1999 Fee Replacement <u>Appropriation</u>
Ball State University	\$ 40,526,559	\$ 8,651,375	\$ 6,936,289
Indiana University(1)	437,441,544	40,995,860	41,008,656
Indiana State University	48,180,000	5,143,707	5,152,675
Indiana Vocational Technical College	54,545,045	7,103,247	7,105,202
Purdue University(2)	206,056,578	29,405,647	27,049,657
University of Southern Indiana	41,353,101	3,635,256	3,634,342
Vincennes University	<u>20,947,371</u>	<u>2,985,820</u>	<u>2,992,953</u>
Total	\$ 849,050,198	\$ 97,920,912	\$ 93,879,774

- 
- (1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.  
(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

### **Contingent Obligations**

Certain State entities, including the Indiana Department of Transportation, Indiana Bond Bank, Indiana Recreational Development Commission and Indiana Development Finance Authority, have entered into lease agreements or issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

#### ***Indiana Transportation Finance Authority: Toll Road Financing***

The Indiana Transportation Finance Authority was created by Indiana Code 8-9.5-8, as successor to the Indiana Toll Finance Authority, the successor to the Indiana Toll Road Commission. The TFA is a separate body corporate and politic from the State, and is responsible under Indiana Code 8-9.5-8 and 8-15 for the construction, reconstruction, improvement, maintenance, operation and repair of toll roads and bridges.

The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. The outstanding Toll Road Bonds are as described below:

<u>Series</u>	<u>Issued</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount(1)</u>
1985	September 1, 1985	\$256,970,000	\$ 26,200,000
1987	February 15, 1987	184,745,000	51,480,000
1993	October 1, 1993	76,075,000	71,165,000
1996	October 1, 1996	134,795,000	134,405,000

(1) As of January 2, 1998.

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "Obligations Involving Income Derived from Possible State Appropriations - Indiana Transportation Finance Authority: Highway Financing" and "—Indiana Transportation Finance Authority: Aviation Financing."

### ***Indiana Bond Bank***

The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and

sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. To assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1,000.0 million plus (i) up to \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (ii) up to \$30.0 million for certain qualified entities that operate as telephone cooperative corporations.

As of January 2, 1998, the Bond Bank had \$1,032.7 million in bonds and notes outstanding, including \$560.3 million in outstanding bonds that are eligible for reserve fund replacement, with an aggregate debt service reserve fund requirement for such bonds of \$63.1 million. As of January 2, 1998, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels.

#### ***Indiana Recreational Development Commission***

The Indiana Recreational Development Commission (the "Recreation Commission"), a separate body corporate and politic, was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued, on April 6, 1994, \$19,285,000 aggregate principal amount of its Revenue Bonds, Series 1994 (the "Series 1994 Bonds"), to finance and refinance costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State. As of January 2, 1998, \$19,105,000 aggregate principal amount of the Series 1994 Bonds remain outstanding.

The Recreation Commission also issued, on February 12, 1997, \$6,600,000 aggregate principal amount of its Revenue Bonds, Series 1997 (the "Series 1997 Bonds" and, collectively with the Series 1994 Bonds, the "Park Revenue Bonds") to finance the costs of acquisition, construction, renovation and equipping of improvements at Fort Benjamin Harrison State Park, including a golf course and related facilities (all projects financed with Park Revenue Bonds are collectively, the "Park Projects"). As of January 2, 1998, \$6,600,000 aggregate principal amount of the Series 1997 Bonds remain outstanding.

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a

supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. There is and can be under State law no requirement for the General Assembly to make any appropriations under the master use and occupancy agreement in any Fiscal Year. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

#### ***Indiana Development Finance Authority***

The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (i) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (ii) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (iii) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; and (iv) prevent and remediate environmental pollution by the promotion and development of industrial development projects.

The Development Finance Authority is permitted by law to issue revenue bonds to finance projects which serve these public purposes. The Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority has issued many revenue bonds. Except as described below, the revenue bonds are not payable from State appropriations. The Development Finance Authority issued on May 25, 1995, \$21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. As of January 2, 1998, \$20,300,000 aggregate principal amount of the Steel Dynamics Bonds remain outstanding. In addition, the Development Finance Authority issued on June 27, 1996, \$14,345,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1996 (Envirotest Systems Corp. Project) (the "Envirotest Systems Bonds"), secured in part by a debt service reserve fund established exclusively for the Envirotest Systems Bonds. As of January 2, 1998, \$13,520,000 aggregate principal amount of the Envirotest System Bonds remain outstanding. Finally, the Development Finance Authority issued \$33,100,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the "Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds, all of which revenue bonds remain outstanding as of January 2, 1998. The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Envirotest Systems Bonds or the Qualitech Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

#### **Separate Bodies Corporate and Politic, Other Entities Issuing Debt**

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities

may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-12-63 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority(1)	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority(2)	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions in protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Educational Loans, Inc. (3)	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds

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- (1) Originally the Indiana Hospital Equipment Financing Authority.
  - (2) Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.
  - (3) A not-for-profit corporation authorized by the General Assembly.

## STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to make periodically an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See Exhibit A-1, Comprehensive Annual Financial Reports for State Fiscal Year Ended June 30, 1997—K. Employee Retirement Systems and Plans.

### Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With total assets of more than \$5,900.0 million on June 30, 1996, PERF is the State's largest pension fund and has essentially no unfunded liability. On June 30, 1996, there were 192,204 members participating in PERF from State and local government.

State employees constitute approximately 40.0% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible only for making contributions for State employee members. Funding is accomplished as part of the expenditures for fringe benefits by each State agency. The State appropriates biennially an amount necessary for PERF administration from PERF earnings.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (i) a pension formula benefit based upon years of service and final average salary and (ii) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of his or her salary. Effective July 1, 1986, the State "picked up" and pays the State employee contributions to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement

or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations.

The following table summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1995, and June 30, 1996.

	<u>June 30, 1995</u>	<u>June 30, 1996</u>
Normal Cost	\$ 69,107,404	\$ 72,200,658
Accrued Liability (Non-retired)(1)	1,245,330,865	1,358,810,072
Unfunded (Overfunded) Accrued Liability (Non-retired)(1)	(4,534,459)	23,621,054
Actuarial Present Value of All Accumulated Plan Benefits	\$ 732,823,168	\$ 748,160,769
Present Value of Vested Benefits	596,326,213	604,367,681
Non-Retired Participant Assets	1,324,642,852(2)	1,405,992,355(3)

(1) There is no Unfunded Accrued Liability for retired members' benefits.

(2) At cost (at market, \$1,496,501,640).

(3) At cost (at market, \$1,522,573,647).

Source: Actuarial Valuation, Public Employees' Retirement Fund of Indiana, June 30, 1995, and June 30, 1996.

In November 1996, a referendum amending the State constitution to permit public pension funds to invest in equities was passed. In May 1997, after enactment of HEA1036, the Board of Trustees of PERF began shifting the asset allocation of its investment portfolio. The target asset allocation of 60.0% equities and 40.0% fixed income securities is being achieved over a projected three-year transition period. It is expected that the targeted asset allocation will produce a more diversified, safer and higher yielding investment portfolio in the long run. At calendar year-end 1997, more than \$1,000.0 million of the total combined \$8,000.0 million portfolio under PERF's control has been shifted to domestic common stocks.

### **State Teachers' Retirement Fund**

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers upon reaching a specific age or meeting other eligibility qualifications. On June 30, 1996, TRF had 108,587 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the Rule of 85 for eligibility purposes.

Moneys to pay retirement benefits are provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As result, the State accumulated a substantial unfunded accrued liability—\$7,068.1 million as of June 30, 1996 (shown below).

To aggressively address TRF's unfunded liability, the State:

1. Capped the growth of the benefit obligations by creating a new, actuarially-sound plan for all new teachers hired after July 1, 1995. The "new" plan is funded by local school districts on a current basis using a level percent of payroll approach.

2. Created a new Pension Stabilization Fund dedicated to limiting growth in future General Fund appropriations for the pre-July 1995 plan to normal growth in General Fund revenues. The Pension Stabilization Fund has been funded through the following transfer and appropriations:

<u>Amount</u>	<u>Source</u>	<u>Time</u>	<u>Frequency</u>
\$439.7 million	Pension reserves	July 1, 1995	One-time
200.0 million	General Fund appropriation	FY 1996 and FY 1997	One-time
100.0 million	General Fund appropriation	FY 1998 and FY 1999	One-time
30.0 million	Gaming Revenues appropriation	Annually, beginning FY 1996	Ongoing
25.0 million	General Fund appropriation	Annually, beginning FY 1996	Ongoing

The Teachers' Retirement Fund reports that the balance in the Pension Stabilization Fund on June 30, 1997 was approximately \$834.9 million (unaudited), including such reserves, Fiscal Year 1996 and Fiscal Year 1997 appropriations and investment earnings of approximately \$82.4 million.

3. Changed the State constitution to allow investment in equities, thereby increasing earnings estimates for plan assets. In August 1997, TRF's trustees adopted a new asset allocation plan, establishing a long-term goal of investing 52.0% of plan assets in equity investments.

	<u>June 30, 1996</u>
Accrued Liability	
Retired	\$ 2,968.6 million
Non-retired	<u>7,314.7 million</u>
Total	\$10,283.3 million
Unfunded Accrued Liability	
Retired	\$1,796.1 million
Non-retired	<u>5,272.0 million</u>
Total	\$7,068.1 million

Source: Report of the Annual Actuarial Valuation as of June 30, 1996. Gabriel Roeder Smith & Co.

### **Indiana Judges' Retirement System**

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

The following table summarizes the results of the actuarial valuation of JRS on July 1, 1995, and July 1, 1996.

	<u>June 30, 1995</u>	<u>June 30, 1996</u>
Normal Cost(1)	\$ 6,302,496	\$ 6,942,598
Accrued Liability	136,984,849	147,488,449
Unfunded Accrued Liability	88,100,958	90,729,621
Valuation Assets	48,883,891(2)	56,758,828(2)
Number of Members		
Active and Inactive	299	328
Terminated Vested	24	20
Retired	<u>191</u>	<u>192</u>
Total	514	540

- (1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately \$1.5 million in 1995 and \$1.6 million in 1996 leave net employer normal cost of approximately \$4.8 million in 1995 and \$5.3 million in 1996.
- (2) Based on cost or book value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1996.

### **State Police Pension Trust**

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, Indiana Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997—K. Employee Retirement Systems and Plans.

### **Other State Plans**

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 1996, the plan had a total annual cost of approximately \$1.4 million and an unfunded actuarial liability of approximately \$8.0 million.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State has authorized additional appropriations of \$50.0 million during 1996 and \$25.0 million each year of the current biennial budget. According to the auditor's report on the component unit financial statements of the funds administered by the PERF Board of Trustees, as of June 30, 1996, and for the fiscal year then ended, approximately \$82.1 million was expended from the State's pension relief fund during fiscal year 1996, and on June 30, 1996, the State's pension relief fund had a balance of approximately \$401.8 million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 1996, the plan had a total annual cost of \$182,405, a cost per eligible active participant of \$1,520 and an unfunded actuarial liability of approximately \$1.9 million.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 1994, the fund had a total employer annual cost of \$308,597 and an unfunded actuarial liability of approximately \$4.3 million.

#### **Local Plans**

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### Introduction

Indiana experienced a rapid rate of job growth in the 1990's, outpacing the national average and most of Indiana's neighboring states. As a result of a 44.0% increase in service sector jobs during the last decade, Indiana's service sector now accounts for roughly the same share of non-farm payrolls (23.2%) as does the State's manufacturing sector (24.0%). Yet, significant job growth has occurred at a time of unprecedented low levels of unemployment in the State. See "Economy."

After leveling off during the 1980's, Indiana's population is growing at a steady rate—consistent with the nation as a whole. In fact, Indiana has experienced positive net population migration since the 1990 Census. See "Population."

Historically, Indiana's overall level of, and rate of increase for, per capita personal income trailed that of the nation. However, during the past decade, the State's personal income has grown at a faster average annual rate than the United States average, narrowing the "income gap." Indiana now ranks 29<sup>th</sup> in the nation in per capita personal income. See "Personal Income."

**Table 1**  
**Summary Comparison of Indiana and the U.S.**

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1996</u>
<u>Employment</u> (1)						
Indiana	1,272	1,431	1,849	2,130	2,522	2,813
% change	--	12.5%	29.2%	15.2%	18.4%	11.5%
U.S.	45,197	54,189	70,880	90,406	109,419	119,554
% change	--	19.9%	30.8%	27.6%	21.0%	9.3%
<u>Population</u> (2)						
Indiana	3,934	4,662	5,195	5,490	5,544	5,841
% change	--	18.5%	11.4%	5.7%	1.0%	5.4%
U.S.	151,326	179,323	203,302	226,546	248,710	265,284
% change	--	18.5%	13.4%	11.4%	9.8%	6.7%
<u>Personal Income</u> (3)						
Indiana	1,510	2,217	3,794	9,330	17,192	22,601
% change	--	46.8%	71.1%	145.9%	84.3%	31.5%
U.S.	1,492	2,276	4,077	10,062	19,191	24,426
% change	--	52.6%	79.1%	146.8%	90.7%	27.3%

(1) In thousands. Non-agricultural payroll employment only. See Table 5.

(2) In thousands. With the exception of 1996, reflects the results of the census as of April 1 of each year.

(3) Dollars per capita. See Table 12.

Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis.

## Economy

With an estimated 1994 Gross State Product of more than \$138.0 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a significantly faster pace than the nation's during the 1990's. Indiana's economic strength is driven by comparatively moderate labor costs, low utility rates, an affordable cost of living and easy access to major consumer markets and population centers. See Table 2.

**Table 2**  
**Total Gross State and Domestic Product**

	<u>In Millions of Current Dollars</u>			<u>Growth Rate</u>	
	<u>1980</u>	<u>1990</u>	<u>1994</u>	<u>1980 to 1990</u>	<u>1990 to 1994</u>
Indiana	\$ 58,431	\$ 108,769	\$ 138,190	86.2%	27.1%
U.S.	2,722,199	5,661,950	6,835,641	108.0	20.7
Indiana as % of U.S. GDP	2.15%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis, through Indiana Department of Commerce.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined sharply in importance to the Indiana economy, accounting for less than 2.0% of the State's economic production in 1994. Conversely, the service sector has grown dramatically, as evidenced by the addition of more than 200,000 service sector jobs in the past decade. Manufacturing, and in particular durable goods manufacturing, has witnessed modest relative declines in its share of Gross State Product, but at 30.3% still remains the single largest component of the economy. See Table 3.

**Table 3**  
**Gross State Product**  
(in millions of current dollars)

	<u>1980</u>	<u>Percentage</u>	<u>1994</u>	<u>Percentage</u>
Agriculture	\$ 2,043	3.5%	\$ 2,370	1.7%
Mining	499	0.9	753	0.6
Construction	2,659	4.6	6,493	4.7
Manufacturing	19,428	33.3	41,843	30.3
Transportation & Utilities	5,128	8.8	11,407	8.3
Wholesale Trade	3,543	6.1	8,382	6.1
Retail Trade	5,668	9.7	12,734	9.2
Finance, Insurance, Real Estate	7,256	12.4	18,448	13.4
Services	6,278	10.7	21,325	15.4
Government	5,930	10.2	14,434	10.5
Total	<u>\$58,431</u>		<u>\$138,190</u>	

Source: U.S. Department of Commerce, Bureau of Economic Analysis, through Indiana Department of Commerce.

Indiana's manufacturing base evidences significant diversity in the types of goods it produces, as well as the markets to which it sells. Indiana ranks in the top five states for producing items ranging from steel, wood office furniture, compact discs, pharmaceuticals, and surgical supplies to potato chips.

Exports play an important and growing role in the Indiana economy, having risen dramatically in value since 1988, to nearly \$12.0 billion in 1996. See Table 4. While export growth for the United States as a whole more than doubled in the past decade, Indiana's export growth has been even stronger—growing 151.0%. It is estimated that roughly 27.0% of Indiana's manufacturing workforce is employed in export-related activity.

**Table 4**  
**Indiana Exports**

<u>Year</u>	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>	
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1988	\$4,759	\$312,060	- %	- %
1989	5,414	348,127	13.77	11.56
1990	6,359	392,975	17.46	12.88
1991	6,438	421,853	1.23	7.35
1992	6,837	447,471	6.21	6.07
1993	8,033	464,858	17.49	3.89
1994	9,261	512,416	15.29	10.23
1995	11,628	583,031	25.56	13.78
1996	11,947	622,827	2.75	6.83
1997(1)	13,281	679,551	11.16	9.11

(1) Estimated.

Source: Massachusetts Institute for Social and Economic Research (MISER), through Indiana Department of Commerce.

Indiana exports in 1997 are projected to reach nearly \$13.3 billion.

## Employment

Indiana experienced strong gains in non-agricultural employment between 1986 and 1996, adding almost 600,000 new jobs, with a growth rate of 26.7% compared to a national rate of 20.3%. During this period, the types of employment by sector shifted, reflecting the fundamental changes taking place in the State's economy. See Table 5. In 1996, service sector employment represented 23.2% of all non-agricultural employment, almost equal to the 24.0% of jobs held by the manufacturing sector.

**Table 5**  
**Annual Employment**  
**Non-Agricultural**  
(in thousands)

	<u>1986</u>		<u>1996</u>		<u>Annual Average Growth Rate (1986 - 96)</u>
Wholesale and Retail Trade	524.6	23.6%	680.6	24.2%	2.9%
Manufacturing	603.9	27.2	674.1	24.0	1.2
Services	428.2	19.3	653.1	23.2	4.8
Government	339.7	15.3	393.6	14.0	1.7
Transportation and Public Utilities	113.0	5.1	139.5	5.0	2.4
Finance, Insurance, Real Estate	110.4	5.0	134.8	4.8	2.2
Construction	92.9	4.2	131.8	4.7	4.0
Mining	<u>8.9</u>	<u>0.4</u>	<u>6.3</u>	<u>0.2</u>	<u>-3.9</u>
Total	<u>2,221.6</u>		<u>2,813.8</u>		2.7%

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, through Indiana Department of Commerce.

Evidence that Indiana's employment base is not overly dependent upon a single sector of the economy is demonstrated by the fact that the top five sectors of employment comprise less than one-third of the total workforce (30.9%).

**Table 6**  
**Total Private Employment**

<u>Rank</u>	<u>Industry Sector</u>	<u>Employment 1996 Average</u>	<u>Percent of Employment</u>
1	Health Services (a)	214,814	9.0%
2	Eating and Drinking Places	195,396	8.2
3	Business Services (b)	123,630	5.2
4	Transportation, Equipment Mfg.	113,117	4.7
5	Durable Goods (Wholesale) (c)	90,044	3.8
6	Special Trade Contractors (d)	80,245	3.4
7	General Merchandise Stores	78,118	3.3
8	Industrial Machinery and Equipment Mfg.	74,651	3.1
9	Food Stores	71,302	3.0
10	Miscellaneous Retail (e)	67,994	2.9
(a)	includes hospitals and nursing facilities		
(b)	advertising, building maintenance, data processing and temporary services		
(c)	autos, furniture, machinery, electrical goods, hardware and lumber		
(d)	plumbing, electrical, masonry, roofing, painting and carpentry		
(e)	drugs, sporting goods, jewelry, books, liquor and specialty shops		

Source: Indiana Department of Workforce Development

Indiana's strong job growth has occurred at a time of record low unemployment levels. Since 1986, Indiana's unemployment rate has generally been below both the national average.

**Table 7**  
**Unemployment Rate**  
(monthly average)

	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u> as % of <u>U.S.</u>
1986	6.7%	7.0%	95.7%
1987	6.4	6.2	103.2
1988	5.3	5.5	96.4
1989	4.7	5.3	88.7
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.7	5.6	83.9
1996	4.1	5.4	75.9
1997 (1)			
January	3.5	5.9	59.3
February	3.4	5.7	59.7
March	3.6	5.5	65.5
April	3.4	4.8	70.8
May	3.1	4.7	66.0
June	3.2	5.2	61.5
July	3.3	5.0	66.0
August	3.3	4.8	68.8
September	3.2	4.7	68.1
October	3.5	4.4	79.6

(1) Preliminary and not seasonably adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Population

Indiana's population on July 1, 1996 was 5.841 million, an increase of 5.4% from the 1990 Census. Population trends during the 1980's have been reversed, and Indiana has seen positive net population migration since 1990. In each of the years 1991 through 1996, the Census Bureau reports that more people were entering the State than leaving it. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1996.

**Table 8**  
**Net Population Migration**  
(in thousands)

<u>Year</u>	<u>Indiana</u>	<u>Illinois</u>	<u>Michigan</u>	<u>Ohio</u>	<u>Kentucky</u>
1991	13	-30	-22	-4	4
1992	15	-10	-15	8	19
1993	21	-13	-26	-1	25
1994	14	-17	-21	-14	17
1995	16	-24	-1	-14	14
1996	15	-19	7	-8	12

Source: U.S. Department of Commerce, Bureau of the Census.

Nearly one in six Americans lives in Indiana and its neighboring states. Indiana is the 14th most populous state in the United States.

The capital and largest city in the State is Indianapolis. See Table 9. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders.

**Table 9**  
**Indiana Cities, MSAs**

<u>City</u>	<u>Population (1996)</u>	<u>MSA</u>	<u>Population (1996)</u>
Indianapolis	757,171	Indianapolis MSA (1)	1,492,297
Fort Wayne	184,783	Fort Wayne MSA (2)	475,299
Evansville	123,456	Evansville-Henderson MSA (3)	288,735
Gary	110,975	Gary Primary MSA (4)	622,303
South Bend	102,100	South Bend MSA(5)	257,740

(1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSA's.

(2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.

(3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.

(4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.

(5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

Source: U.S. Department of Commerce, Bureau of the Census.

The State's demographic profile in 1996 closely matched the nation's as a whole. Changes in the Indiana demographic profile since 1986 also match national trends, including a decline since 1986 in the portion of the population of school age and an increase in the portion of the population 65 years and older.

**Table 10**  
**Demographic Profile**

<u>Age (Years)</u>	<u>Indiana</u>		<u>U.S.</u>	
	<u>1986</u>	<u>1996</u>	<u>1986</u>	<u>1996</u>
0-4. ....	7.3%	7.0%	7.5%	7.3%
5-14. ....	14.9	14.1	14.0	14.5
15-24. ....	16.7	14.3	16.5	13.7
25-44. ....	30.4	31.2	31.4	31.6
45-64. ....	18.8	20.7	18.6	20.3
65 and older. ....	12.0	12.6	12.1	12.8

Source: U.S. Department of Commerce, Bureau of the Census.

## Personal Income

During the past decade, total personal income in Indiana grew at a modestly faster rate than the nation as a whole.

**Table 11**  
**Personal Income**  
(\$ in millions)

	<u>Indiana</u>	<u>U.S.</u>	<u>Annual Percentage Change</u>	
			<u>Indiana</u>	<u>U.S.</u>
1986	\$ 73,999	\$3,646,346		
1987	78,573	3,874,096	6.2%	6.3%
1988	83,742	4,171,650	6.6	7.7
1989	90,091	4,485,191	7.6	7.5
1990	95,501	4,786,293	6.0	6.7
1991	98,978	4,963,545	3.6	3.7
1992	106,333	5,260,922	7.4	6.0
1993	112,701	5,507,622	6.0	4.7
1994	119,665	5,774,806	6.2	4.9
1995	125,804	6,137,875	5.1	6.3
1996(1)	132,000	6,479,914	4.9	5.6

(1) Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Although the absolute level of per capita personal income in Indiana is below the United States' average, the State's average annual growth rate of 5.8% during the last decade exceeded the nation's (5.4%). In 1996, Indiana ranked 29<sup>th</sup> in the nation in per capita personal income.

**Table 12**  
**Per Capita Personal Income**

	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1986	\$13,568	\$15,185		
1987	14,356	15,990	5.8%	5.3%
1988	15,249	17,062	6.2	6.7
1989	16,310	18,172	7.0	6.5
1990	17,192	19,191	5.4	5.6
1991	17,666	19,689	2.8	2.6
1992	18,814	20,631	6.5	4.8
1993	19,749	21,365	5.0	3.6
1994	20,811	22,180	5.4	3.8
1995	21,702	23,348	4.3	5.3
1996(1)	22,601	24,426	<u>4.1</u>	<u>4.6</u>
<b>Annual Average Growth</b>			<u><b>5.8%</b></u>	<u><b>5.4%</b></u>

(1) Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, through Indiana Department of Commerce.

## OTHER INFORMATION

### Education

**Elementary and Secondary.** Elementary and Secondary education in the State is provided by 294 school districts, which in the 1997-98 school year operated 1,124 elementary schools, 257 elementary/middle or junior high schools, 13 elementary/high schools, 99 middle or junior high schools/high schools, 74 middle or junior high schools, 236 high schools and 111 schools housing special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 1997-98 school year, accounted for 10.7% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 1997-98 school year was 983,168.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the State level, schools are administered by the State Board of Education, which is comprised of the Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor and the Superintendent of Public Instruction for four-year terms. At least four of the appointments must be actively employed in Indiana schools and hold valid teaching licenses. The State Board of Education is the State's policymaking and planning body for the public school system. The State Department of Education acts as the professional, technical and clerical staff for the Indiana State Board of Education.

Approximately 56,464 teachers and 9,001 other professional staff members were employed in the State public school system during the 1996-97 school year, resulting in a student teacher ratio (based on total enrollment, including special education programs) of 17.2:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was \$38,463 during the 1996-97 school year.

**Higher Education.** The Commission for Higher Education was established in 1971 to plan and coordinate the State's system of post-secondary education. The Commission develops long range plans, reviews budget requests of public post-secondary institutions and passes judgment on new degree programs of such institutions. The State university system is comprised of seven degree granting universities and colleges, as described below. Enrollment in all institutions in the fall of 1997 was 227,796 students (including both full-time and part-time students).

**Table 13**  
**Public Post-Secondary Institutions**

<u>Name</u>	<u>Programs Offered</u>	<u>Campus Locations</u>
Ball State University	4-year	Muncie
Indiana State University	4-year	Terre Haute
Indiana University	4-year	Bloomington Richmond Kokomo Gary South Bend New Albany Indianapolis

Ivy Tech State College	2-year	Gary East Chicago South Bend Elkhart Valparaiso Fort Wayne Lafayette Kokomo Muncie Anderson Wabash Valley Richmond Columbus and Bloomington Lawrenceburg Evansville Sellersburg Indianapolis
Purdue University	4-year	West Lafayette Hammond Michigan City Fort Wayne Westville Calumet Region Indianapolis
University of Southern Indiana	4-year	Evansville
Vincennes University	2-year	Vincennes Jasper Indianapolis

## Transportation

As the "Crossroads of America," the State has an extensive network of highways, railroads, airline service and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

**Highways.** Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers with nearly two-thirds of the United States population accessible within a day's drive.

**Railroads.** Indiana is served by at least 39 freight railroads according to the Rail Division of the Indiana Department of Transportation. The State rail network provides, among other transportation services, access between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track.

**Aviation.** The State has 114 public use airports. Of these, five are primary commercial service airports, one is a commercial service airport, 11 are reliever airports and 97 are general aviation airports. The primary airports include one medium hub and two small hub airports and two nonhub airports.

**Ports and Waterways.** The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre opened, in 1984, along the Ohio River, near Jeffersonville, in south central Indiana.

**Public Transportation.** Indiana's 39 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 28.0 million passengers in 1996, a decrease of 0.3% from 1995. Transit system vehicles traveled 27.0 million miles in 1996, an increase of 9.0% from 1995. Total fare revenue collected in 1996 was \$26.7 million, an increase of 8.0% from 1995. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 29.0% in 1996, an increase of 93.0% from 1995. The State Public Mass Transportation Fund accounted for \$21.8 million, or 23.0%, of total public transit operating revenues in 1996.

## LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1974, the State has paid several million dollars per year for interdistrict busing that is expected to continue. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget ever since. In 1989, the Indianapolis Public Schools filed a motion seeking to modify the court's final judgment so as to order the State to fund a variety of new programs claimed to be necessary to alleviate the effects of past segregation. The relief sought by the school system would, if granted, cost the State approximately \$22.0 million per year. The State opposed the motion, arguing that the final judgment should not be modified, that any need for the programs sought by the school system is not the result of segregation that ended years ago and that the relief sought against the State is barred by the United States constitution. In August 1990, the court denied the Indianapolis Public Schools' motion, but the Indianapolis Public Schools has asked the court to reconsider its decision and the motion is still pending. In mid-1996, the Indianapolis Public Schools filed for unitary status seeking a 13-year phase out of the desegregation and transfer order. Several township school districts opposed the motion, suggesting the transfers must remain in effect in perpetuity, and the federal trial court agreed. However, the Seventh Circuit reversed that decision and the future of the inter-district busing order is in doubt.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of \$5.0 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in applicants' medical condition. After an appeal, the matter has been remanded to the trial court for further proceedings. If unsuccessful in this litigation, the State would forfeit savings of up to \$30.0 million.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed before two trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of \$5.0 million.

On April 7, 1994, a broad based class action lawsuit was filed against several State agencies, including the Family and Social Services Administration and the Department of Workforce Development, in the Federal District Court for the Southern District of Indiana. The federal court dismissed the case but an identical action has been filed in Marion (County) Superior Court. The action claims that employees currently classified as exempt from the overtime provisions of the Fair Labor Standards Act are improperly classified, and that those employees should have been paid for hours worked in excess of 37.5 hours per week. Approximately 325 plaintiffs are seeking damages. Actual damages in this case would probably not exceed \$5.0 million. If the State were unsuccessful, however, the case would likely result in a reclassification of some 90 job classifications with hundreds of employees moving from exempt to nonexempt status. As a result, the case could have a fiscal impact of more than \$10.0 million.

The United States Environmental Protection Agency filed a lawsuit in the Federal District Court for the Northern District of Indiana against the Hammond Sanitary District and eight users for violations of the Clean Water

Act, among other things. The State was named as a defendant. Because of Indiana's interests in this case, which mirror those of the federal government, the State attempted to realign itself and become a plaintiff. The federal trial court has rejected the State's attempted realignment, so the State has filed cross claims for the same violations of the Clean Water Act, as well as for additional State claims, against the other defendants. If the State were found jointly or severally liable, it would be potentially liable for more than \$10.0 million.

Recently, the Department of Correction received a "106 letter" from the United States Environmental Protection Agency, indicating that it was a potentially responsible party with regard to a Superfund site in South Bend. If this matter ultimately proceeds to litigation, the State would be potentially liable for more than \$10.0 million.

A class action of 40 parents and 30 children filed in Porter Superior Court seeks damages from the State for failure to properly investigate and failure to revoke a license of a day care operator whose son allegedly molested some of the children in her care. Because there are 70 different claims, damages could exceed \$5.0 million if the State were ultimately found liable.

The State intends to vigorously defend each of the foregoing suits or other claims.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated working (or cash) balance, if any. See "FINANCIAL RESULTS OF OPERATIONS."

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**EXHIBIT A-1**

**GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF  
INDIANA AS OF AND FOR THE YEAR ENDED JUNE 30, 1997**

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# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

## STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET

4TH FLOOR, ROOM E418

INDIANAPOLIS, INDIANA 46204-2765

(317) 232-2513

### INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon  
The Legislative Council of the General Assembly, and  
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 1997. These general purpose financial statements are the responsibility of the Auditor of the State of Indiana. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of \$3,974.2 million and \$855.4 million, respectively, as of and for the year ended June 30, 1997. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. The reports represent 12.9% of special revenue fund assets, 100% of debt service fund assets, 94.6% of enterprise fund assets, 88.1% of internal service fund assets, and 100% of proprietary and governmental discretely presented component units assets.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

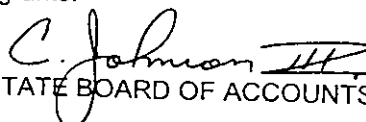
In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 1997, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The State Employee Deferred Compensation Plan is reported on a December 31, 1996 year end. The Housing Finance Authority, a discretely presented component unit, also reports on a December 31, 1996 year end.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical Sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 1997 on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

December 22, 1997

  
STATE BOARD OF ACCOUNTS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
4TH FLOOR, ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765  
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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Frank O'Bannon  
The Legislative Council of the General Assembly, and  
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana as of and for the year ended June 30, 1997, and have issued our report thereon dated December 22, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

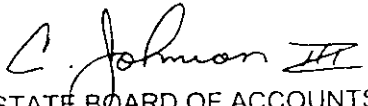
### Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is an condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the State of Indiana's management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
STATE BOARD OF ACCOUNTS

December 22, 1997

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State of Indiana  
Combined Balance Sheet  
All Fund Types, Account Groups, and Discretely Presented  
Component Units  
June 30, 1997  
(amounts expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and other debits:</b>				
<b>Assets:</b>				
Cash, cash equivalents and investments - restricted	\$ 2,594,026	\$ 1,713,220	\$ 9,932	\$ 214,434
Cash, cash equivalents and investments - unrestricted	—	223,204	—	—
Cash and investments with fiscal agent	2,658,886	326,928	—	114,610
Securities lending collateral	—	—	—	—
Receivables:				
Taxes	501,777	159,985	—	1,587
Accounts	412	14,173	—	202
Grants	1,450	79,592	—	345
Interest	17,482	12,437	32	—
Member contributions	—	—	—	—
Employer contributions	—	—	—	—
Member loans	—	—	—	—
Interfund	2,755	34,778	—	—
Advances	—	500	—	2,291
Due from other funds	24,344	3,170	3,106	32,646
Intergovernmental loans	10,945	155,411	—	4,437
Student loans	—	—	—	860
Other	—	—	—	—
Inventory	—	—	—	—
Prepaid expenses/expenditures	743	2,713	—	—
Food stamp inventory	—	140,638	—	—
Other restricted assets:				
Construction in progress	—	—	—	—
Other	—	—	—	—
Bond issue costs - net of amortization	—	—	—	—
Property, plant and equipment	—	—	—	—
Less: Accumulated depreciation	—	—	—	—
Other assets	—	—	—	—
<b>Other debits:</b>				
Amount available for debt service fund	—	—	—	—
Amount to provided for retirement of long term debt	—	—	—	—
<b>Total assets and other debits</b>	<b>\$ 5,812,820</b>	<b>\$ 2,866,749</b>	<b>\$ 13,070</b>	<b>\$ 371,412</b>
<b>Liabilities, equity and other credits:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 115,665	\$ 386,329	\$ 2	\$ 2,850
Accrued interest payable	—	—	3,554	—
Salaries and benefits payable	33,158	30,960	—	—
Capital lease payable - current	—	—	—	—
Revenue bonds/notes payable - current	—	—	—	—
Pension benefits payable	—	37,533	—	865
Interfund payables	—	—	—	—
Advances	1,538	28,150	—	163
Due to other funds	—	240,191	—	—
Intergovernmental payables	45,706	5,061	—	—
Tax refunds payable	32	158,909	—	20
Deferred revenue	—	—	—	—
Accrued prize liability - current	—	—	—	—
Accrued prize liability - long term	2,361	2,136	—	—
Accrued liability for compensated absences - current	—	—	—	—
Accrued liability for compensated absences - long term	—	—	—	—
Escheated property liability	—	—	—	—
Construction retention	—	—	—	—
Other payables	2,658,886	326,928	—	114,610
Securities lending collateral	—	—	—	—
Obligations under reverse repurchase agreements	—	—	—	—
Capital lease payable - long term	—	—	—	—
Revenue bonds/notes payable - long term	—	—	—	—
Claims and judgments	—	—	—	—
<b>Total liabilities</b>	<b>2,857,346</b>	<b>1,216,197</b>	<b>3,556</b>	<b>118,508</b>
<b>Equity and other credits:</b>				
Investment in general fixed assets	—	—	—	—
Net assets held in trust for pension benefits	—	—	—	—
Contributed Capital:				
Capital grants	—	—	—	—
Retained earnings:				
Reserved (see note III, H.)	—	—	—	—
Unreserved	—	—	—	—
Fund balances:				
Reserved (see note III, H.)	298,346	821,496	9,514	17,831
Unreserved:				
Designated for appropriations	321,086	52,230	—	92,384
Designated for allotments	748,032	643,103	—	115,498
Undesignated	1,588,010	133,723	—	27,191
<b>Total equity and other credits</b>	<b>2,955,474</b>	<b>1,650,552</b>	<b>9,514</b>	<b>252,904</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 5,812,820</b>	<b>\$ 2,866,749</b>	<b>\$ 13,070</b>	<b>\$ 371,412</b>

The notes are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government	Component Units			Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)	Governmental	Proprietary	Colleges and Universities	(Memorandum Only)
\$ 42,640	99,954	\$ -	\$ -	\$ -	\$ 142,594	\$ -	\$ -	\$ -	\$ 142,594
250,279	32,086	13,332,385	-	-	18,146,362	16,857	696,058	1,722,178	20,581,455
-	-	-	-	-	223,204	-	-	-	223,204
-	-	2,341,270	-	-	5,441,664	-	161,722	-	5,603,416
-	-	-	-	-	663,349	-	-	-	663,349
18,560	5,520	26,727	-	-	65,594	6	-	140,451	206,051
-	-	-	-	-	81,387	-	-	-	81,387
505	566	133,805	-	-	164,827	126	35,634	6,420	207,007
-	-	48,007	-	-	48,007	-	-	-	48,007
-	-	61,571	-	-	61,571	-	-	-	61,571
-	-	8,406	-	-	8,406	-	-	-	8,406
865	-	-	-	-	38,398	-	-	-	38,398
-	3,584	-	-	-	6,375	-	-	-	6,375
-	4,323	11,804	-	-	79,393	-	-	-	79,393
-	-	241,888	-	-	412,681	-	874,666	-	1,287,347
-	-	-	-	-	-	-	252,751	113,508	366,259
5,038	17,514	-	-	-	860	1,585	422,680	40,462	465,587
657	6,694	72	-	-	22,552	-	-	20,619	43,171
-	-	-	-	-	10,879	-	-	35,707	46,586
-	-	-	-	-	140,638	-	-	-	140,638
12,528	31,197	-	-	-	43,725	-	-	-	43,725
10,392	-	-	-	-	10,392	-	-	33,465	77,190
18,399	14,006	-	-	-	32,405	-	-	-	10,392
582,430	520,580	678	1,443,773	-	2,547,461	-	18,416	785	51,606
(374,562)	(87,356)	(497)	-	-	(462,415)	-	1,045	4,945,053	7,493,559
-	-	-	-	-	-	-	(884)	(2,159,443)	(2,622,742)
-	-	-	-	-	-	-	2,493	-	2,493
-	-	-	-	9,514	9,514	-	-	-	9,514
-	-	-	-	655,484	655,484	-	-	-	655,484
\$ 567,731	648,668	\$ 16,206,116	\$ 1,443,773	\$ 664,998	\$ 28,595,337	\$ 18,574	\$ 2,464,581	\$ 4,899,205	\$ 35,977,697

\$ 24,260	6,933	\$ 604,534	\$ -	\$ -	\$ 1,140,573	\$ 1,991	\$ 2,790	\$ 282,535	\$ 1,427,879
-	28,725	-	-	-	32,279	-	26,537	812	59,628
251	744	8,968	-	-	74,081	13	-	29,385	103,479
-	862	-	-	-	862	-	-	33,233	34,095
-	1,267	-	-	-	1,267	-	-	1,230,452	1,231,719
-	-	1,837	-	-	1,837	-	-	-	1,837
-	-	-	-	-	38,398	-	-	-	38,398
2,775	3,600	-	-	-	6,375	-	-	-	6,375
42,646	112	6,784	-	-	79,393	-	-	-	79,393
-	117	3,589	-	-	243,897	-	-	-	243,897
-	-	-	-	-	50,767	-	-	-	50,767
2,705	5,180	554	-	-	167,400	-	-	-	167,400
44,533	-	-	-	-	44,533	-	2,997	48,816	219,213
50,255	-	-	-	-	50,255	-	-	-	44,533
32	58	192	-	-	4,779	-	-	-	50,255
196	1,257	-	-	90,204	91,657	-	-	55,085	59,864
-	-	620	-	-	620	-	-	-	91,657
-	2,490	-	-	-	2,490	-	-	-	620
9,127	9,709	-	-	-	18,836	1,575	1,795	-	2,490
-	-	2,341,270	-	-	5,441,664	-	161,722	-	22,206
-	-	-	-	-	-	-	-	-	5,603,416
-	1,140	-	-	-	4,019	-	-	100,045	100,045
273,994	532,427	-	-	570,288	1,376,709	-	-	-	5,159
-	-	-	-	487	487	-	1,865,653	-	3,242,362
450,774	594,621	2,968,348	-	664,998	8,874,348	3,579	2,061,484	1,780,363	12,719,774
-	-	-	1,443,773	-	1,443,773	-	-	1,802,686	3,248,459
-	-	11,506,658	-	-	11,506,658	-	-	-	11,506,658
7,858	19,849	-	-	-	27,707	-	-	-	27,707
6,721	3,584	-	-	-	10,305	-	-	-	10,305
102,378	30,614	-	-	-	132,992	-	403,097	-	536,089
-	-	241,888	-	-	1,389,075	5,529	-	368,161	1,762,765
-	-	3,955	-	-	469,655	-	-	-	469,655
-	-	116,481	-	-	1,623,114	-	-	854,781	2,477,895
-	-	1,368,786	-	-	3,117,710	9,466	-	93,214	3,220,390
116,957	54,047	13,237,768	1,443,773	-	19,720,989	14,995	403,097	3,118,842	23,257,923
\$ 567,731	648,668	\$ 16,206,116	\$ 1,443,773	\$ 664,998	\$ 28,595,337	\$ 18,574	\$ 2,464,581	\$ 4,899,205	\$ 35,977,697

**State of Indiana**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**All Governmental Fund Types, Expendable Trust Funds, and Discretely**  
**Presented Governmental Component Units**  
**For the Fiscal Year Ended June 30, 1997**  
(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government Memo- randum Only)	Governmental Fund Types Component Unit	Totals Reporting Entity (Memo- randum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust			
<b>Revenues:</b>								
Taxes	\$ 6,946,585	\$ 2,347,497	\$ --	\$ 14,532	\$ 253,573	\$ 9,562,187	\$ --	\$ 9,562,187
Licenses, permits and franchises	18,264	293,292	--	--	--	311,556	--	311,556
Current service charges	153,283	396,886	--	1,395	--	551,564	116	551,680
Interest	173,845	70,599	892	17,525	87,287	350,148	788	350,936
Sales/rents	605	67,565	--	--	--	68,170	2	68,172
Grants	8,716	3,566,877	--	15,911	14,377	3,605,881	--	3,605,881
Donations/escheats	--	269	--	--	32,058	32,327	--	32,327
Miscellaneous	8,524	188,565	--	389	141	197,619	67	197,686
<b>Total revenues</b>	<b>7,309,822</b>	<b>6,931,550</b>	<b>892</b>	<b>49,752</b>	<b>387,436</b>	<b>14,679,452</b>	<b>973</b>	<b>14,680,425</b>
<b>Expenditures:</b>								
Current:								
General government	1,279,471	1,424,235	--	55,108	5,419	2,764,233	--	2,764,233
Public safety	402,549	354,681	--	28,233	--	785,463	--	785,463
Health	102,757	164,473	--	9,985	--	277,215	--	277,215
Welfare	394,667	3,733,146	--	1,740	7,217	4,136,770	--	4,136,770
Conservation, culture and development	53,824	314,451	--	7,621	279,756	655,652	1,277	656,929
Education	4,419,471	425,174	--	29,111	97	4,873,853	--	4,873,853
Transportation	659	1,035,136	--	--	--	1,035,795	--	1,035,795
Miscellaneous	5,157	3,808	--	--	--	8,965	--	8,965
Debt service:								
Principal	--	--	13,460	--	--	13,460	--	13,460
Interest, finance fees	--	--	29,110	--	--	29,110	--	29,110
Other	--	--	15	--	--	15	--	15
<b>Total expenditures</b>	<b>6,658,555</b>	<b>7,455,104</b>	<b>42,585</b>	<b>131,798</b>	<b>292,489</b>	<b>14,580,531</b>	<b>1,277</b>	<b>14,581,808</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>651,267</b>	<b>(523,554)</b>	<b>(41,693)</b>	<b>(82,046)</b>	<b>94,947</b>	<b>98,921</b>	<b>(304)</b>	<b>98,617</b>
<b>Other financing sources (uses):</b>								
Operating transfers in (out)	(543,714)	547,615	41,942	103,904	(27,401)	122,346	--	122,346
Operating transfers in (out) -- component unit	(2,500)	--	--	--	5,661	3,161	2,500	5,661
Proceeds from capital leases	1,419	1,011	--	--	--	2,430	--	2,430
Proceeds from refunding debt	--	--	164,392	--	--	164,392	--	164,392
Payment to refund bond escrow agent	--	--	(163,893)	--	--	(163,893)	--	(163,893)
<b>Total other financing sources (uses)</b>	<b>(544,795)</b>	<b>548,626</b>	<b>42,441</b>	<b>103,904</b>	<b>(21,740)</b>	<b>128,436</b>	<b>2,500</b>	<b>130,936</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>106,472</b>	<b>25,072</b>	<b>748</b>	<b>21,858</b>	<b>73,207</b>	<b>227,357</b>	<b>2,196</b>	<b>229,553</b>
<b>Fund balances, July 1, as restated</b>	<b>2,849,002</b>	<b>1,625,480</b>	<b>8,766</b>	<b>231,046</b>	<b>1,277,378</b>	<b>5,991,672</b>	<b>12,799</b>	<b>6,004,471</b>
<b>Fund balances, June 30</b>	<b>\$ 2,955,474</b>	<b>\$ 1,650,552</b>	<b>\$ 9,514</b>	<b>\$ 252,904</b>	<b>\$ 1,350,585</b>	<b>\$ 6,219,029</b>	<b>\$ 14,995</b>	<b>\$ 6,234,024</b>

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances -Budget and Actual- (Budgetary Basis**  
**Variances with GAAP)**  
**General and Special Revenue Fund Types**  
**For the Fiscal Year Ended June 30, 1997**  
(amounts expressed in thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Taxes	\$ 6,424,708	\$ 7,014,276	\$ 589,568	\$ 2,320,961	\$ 2,307,405	\$ (13,556)
Licenses, permits and franchises	19,755	18,264	(1,491)	283,289	293,292	10,003
Current service charges	146,624	154,977	8,353	395,456	406,368	10,912
Interest	168,145	177,841	9,696	14,032	20,548	6,516
Sales	754	605	(149)	12,880	24,642	11,762
Grants	7,039	8,764	1,725	3,261,716	3,209,713	(52,003)
Donations/escheats	--	--	--	270	269	(1)
Other	9,222	8,473	(749)	175,425	167,213	(8,212)
<b>Total revenues</b>	<b>6,776,247</b>	<b>7,383,200</b>	<b>606,953</b>	<b>6,464,029</b>	<b>6,429,450</b>	<b>(34,579)</b>
<b>Expenditures:</b>						
Current						
General government	1,510,439	1,274,461	235,978	1,416,654	1,338,765	77,889
Public safety	443,270	402,041	41,229	385,249	340,620	44,629
Health	105,572	102,673	2,899	177,348	154,181	23,167
Welfare	784,771	394,669	390,102	3,682,517	3,458,555	223,962
Conservation, culture and development	79,894	53,790	26,104	305,443	293,024	12,419
Education	4,430,953	4,412,985	17,968	441,111	422,400	18,711
Transportation	3,088	673	2,415	1,114,838	1,048,697	66,141
Miscellaneous	5,245	5,240	5	--	--	--
<b>Total expenditures</b>	<b>7,363,232</b>	<b>6,646,532</b>	<b>716,700</b>	<b>7,523,160</b>	<b>7,056,242</b>	<b>466,918</b>
Excess of revenue over (under) expenditures	(586,985)	736,668	1,323,653	(1,059,131)	(626,792)	432,339
<b>Other financing sources (uses):</b>						
Operating transfers in (out)	(477,475)	(543,594)	(66,119)	339,530	529,556	190,026
Operating transfers in (out) - component units	(2,500)	(2,500)	--	--	--	--
<b>Total other financing sources (uses)</b>	<b>(479,975)</b>	<b>(546,094)</b>	<b>(66,119)</b>	<b>339,530</b>	<b>529,556</b>	<b>190,026</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>\$ (1,066,960)</b>	<b>190,574</b>	<b>\$ 1,257,534</b>	<b>\$ (719,601)</b>	<b>(97,236)</b>	<b>\$ 622,365</b>
<b>Fund balances, July 1, as restated</b>		<b>1,934,481</b>			<b>1,347,665</b>	
<b>Fund balances, June 30</b>		<b>\$ 2,125,055</b>			<b>\$ 1,250,429</b>	

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Revenues, Expenses and**  
**Changes in Retained Earnings / Fund Balances**  
**All Proprietary Fund Types, Similar Trust Funds and**  
**Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 1997**

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Proprietary Fund Types	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust		Component Units	
<b>Operating revenues:</b>						
Sales/rents/premiums	\$ 599,420	\$ 63,656	\$ --	\$ 663,076	\$ --	\$ 663,076
Toll receipts	74,364	--	--	74,364	--	74,364
Charges for services	--	36,817	26,053	62,670	61,765	124,435
Statutory appropriations	--	2,114	--	2,114	--	2,114
Insurance premiums	--	80,264	--	80,264	--	80,264
Interest	--	--	812	812	--	812
Miscellaneous	928	763	--	1,691	--	1,691
<b>Total operating revenues</b>	<b>674,712</b>	<b>183,414</b>	<b>26,865</b>	<b>884,991</b>	<b>61,765</b>	<b>946,756</b>
<b>Cost of sales</b>	<b>396,074</b>	<b>11,050</b>	<b>--</b>	<b>407,124</b>	<b>--</b>	<b>407,124</b>
<b>Gross Margin</b>	<b>278,638</b>	<b>172,364</b>	<b>26,865</b>	<b>477,867</b>	<b>61,765</b>	<b>539,632</b>
<b>Operating expenses:</b>						
Personal services	30,001	16,992	--	46,993	129	47,122
Other general and administrative expense	23,113	31,087	17,408	71,608	21,003	92,611
Loss claims expense	996	--	--	996	--	996
Benefit payments	--	59,161	--	59,161	--	59,161
Disability payments	--	15,752	--	15,752	--	15,752
Death settlements	--	326	--	326	--	326
Medical expense reimbursement	--	496	--	496	--	496
Depreciation and amortization	10,975	16,545	--	27,520	4,373	31,893
Miscellaneous	72	--	--	72	2,372	2,444
<b>Total operating expenses</b>	<b>65,157</b>	<b>140,359</b>	<b>17,408</b>	<b>222,924</b>	<b>27,877</b>	<b>250,801</b>
<b>Operating income (loss)</b>	<b>213,481</b>	<b>32,005</b>	<b>9,457</b>	<b>254,943</b>	<b>33,888</b>	<b>288,831</b>
<b>Nonoperating revenues (expenses):</b>						
Interest and other investment income (expense)	(4,412)	(27,343)	--	(31,755)	(3,364)	(35,119)
Proceeds from capital leases	--	5	--	5	--	5
Loss on disposition of assets	--	(541)	--	(541)	--	(541)
Miscellaneous	(5,615)	89	--	(5,526)	(663)	(6,189)
<b>Total nonoperating revenues (expenses)</b>	<b>(10,027)</b>	<b>(27,790)</b>	<b>--</b>	<b>(37,817)</b>	<b>(4,027)</b>	<b>(41,844)</b>
<b>Income before operating transfers</b>	<b>203,454</b>	<b>4,215</b>	<b>9,457</b>	<b>217,126</b>	<b>29,861</b>	<b>246,987</b>
<b>Operating transfers in (out)</b>	<b>(176,627)</b>	<b>4,572</b>	<b>19,710</b>	<b>(152,345)</b>	<b>--</b>	<b>(152,345)</b>
<b>Operating transfers in (out) - component units</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(5,661)</b>	<b>(5,661)</b>
<b>Net income (loss)</b>	<b>26,827</b>	<b>8,787</b>	<b>29,167</b>	<b>64,781</b>	<b>24,200</b>	<b>88,981</b>
<b>Retained earnings/fund balances, July 1, as restated</b>	<b>82,272</b>	<b>25,411</b>	<b>351,357</b>	<b>459,040</b>	<b>378,897</b>	<b>837,937</b>
<b>Retained earnings/fund balances, June 30</b>	<b>\$ 109,099</b>	<b>\$ 34,198</b>	<b>\$ 380,524</b>	<b>\$ 523,821</b>	<b>\$ 403,097</b>	<b>\$ 926,918</b>

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types, Nonexpendable Trust Funds and**  
**Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 1997**  
(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Proprietary Fund Types	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust		Component Units	
<b>Cash flows from operating activities:</b>						
Operating income (loss)	\$ 213,481	\$ 32,005	\$ 9,457	\$ 254,943	\$ 33,888	\$ 288,831
Adjustments to reconcile operating income (loss) to net cash provided (used by operating activities):						
Depreciation/amortization expense	10,975	18,545	--	27,520	4,373	31,893
Other provisions	(7,471)	(4)	--	(7,475)	(6,484)	(13,959)
(Increase) decrease in accounts receivable	1,943	3,502	--	5,445	--	5,445
(Increase) decrease in intergovernmental receivable	--	--	--	--	316,495	316,495
(Increase) decrease in student loans	--	--	--	--	4,139	4,139
(Increase) decrease in other receivables	--	--	--	--	(45,023)	(45,023)
(Increase) decrease in due from other funds	--	(2,588)	--	(2,588)	--	(2,588)
(Increase) decrease in inventory	(103)	(5,290)	--	(5,393)	--	(5,393)
(Increase) decrease in prepaid expenses	(489)	(5,851)	--	(6,340)	--	(6,340)
(Increase) decrease in other assets	--	--	--	--	1,464	1,464
Increase (decrease) in health claims incurred	--	(137)	--	(137)	--	(137)
Increase (decrease) in benefits payable	--	75	--	75	--	75
Increase (decrease) in accounts payable	330	(522)	34	(158)	(123)	(281)
Increase (decrease) in deferred revenue	(352)	3,377	--	3,025	(564)	2,461
Increase (decrease) in salaries payable	26	105	--	131	--	131
Increase (decrease) in compensated absences	54	95	--	149	--	149
(Increase) decrease in due to other funds	(4,451)	(43)	--	(4,494)	--	(4,494)
(Increase) decrease in intergovernmental payables	--	(9)	--	(9)	--	(9)
Increase (decrease) in accrued interest payable	--	--	--	--	(1,575)	(1,575)
Increase (decrease) in accrued prize liability	(218)	--	--	(218)	--	(218)
Increase (decrease) in other payables	4,116	(3)	--	4,113	622	4,735
Net cash provided (used) by operating activities	217,841	41,257	9,491	268,589	307,212	575,801
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers in (out)	(176,627)	4,572	19,709	(152,346)	(5,661)	(158,007)
Return of contributed capital	(145)	--	--	(145)	--	(145)
Proceeds from intergovernmental loans	--	--	(46,429)	(46,429)	--	(46,429)
Repayment of intergovernmental loans	--	--	45,882	45,882	--	45,882
Cash received - advances	184	--	--	184	--	184
Cash paid - advances	(52)	(132)	--	(184)	--	(184)
Cash transfer portion of contributed capital	--	500	--	500	--	500
Net cash provided (used) by noncapital financing activities	(176,640)	4,940	19,162	(152,538)	(5,661)	(158,199)
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of fixed assets	(18,194)	(48,601)	--	(66,795)	(30)	(66,825)
Proceeds from sale of fixed assets	--	689	--	689	--	689
Proceeds from issuance of long-term debt	134,795	10,303	--	145,098	448,364	593,462
Principal payments - capital leases	--	(789)	--	(789)	--	(789)
Principal payments - bonds/notes	(128,825)	(18,620)	--	(147,245)	(781,136)	(928,381)
Interest, debt issue costs	(24,992)	(29,779)	--	(54,771)	(120,136)	(174,907)
Net cash provided (used) by capital and related financing activities	(37,016)	(86,797)	--	(123,813)	(452,938)	(576,751)
<b>Cash flows from investing activities:</b>						
Proceeds from sale of investments	217,896	51,062	193,686	462,644	631,857	1,094,501
Purchase of investments	(210,346)	(12,751)	(214,671)	(437,768)	(600,868)	(1,038,636)
Interest received	11,900	2,799	(1)	14,898	114,910	129,608
Net cash provided (used) by investing activities	19,450	41,110	(20,986)	39,574	145,899	185,473
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>23,635</b>	<b>510</b>	<b>7,667</b>	<b>31,812</b>	<b>(5,488)</b>	<b>26,324</b>
<b>Cash and cash equivalents, July 1</b>	<b>94,870</b>	<b>35,547</b>	<b>25,958</b>	<b>156,375</b>	<b>98,801</b>	<b>255,176</b>
<b>Cash and cash equivalents, June 30</b>	<b>\$ 118,505</b>	<b>\$ 36,057</b>	<b>\$ 33,625</b>	<b>\$ 188,187</b>	<b>\$ 93,313</b>	<b>\$ 281,500</b>
<b>Reconciliation of cash, cash equivalents and investments:</b>						
Cash and cash equivalents at end of year	\$ 118,505	\$ 36,057	\$ 33,625	\$ 188,187	\$ 93,313	\$ 281,500
Investments	174,414	95,983	105,043	375,440	602,745	978,185
Other funds presented on balance sheet (trust and agency)	--	--	13,193,717	13,193,717	--	13,193,717
<b>Cash, cash equivalents and investments per balance sheet</b>	<b>\$ 292,919</b>	<b>\$ 132,040</b>	<b>\$ 13,332,385</b>	<b>\$ 13,757,344</b>	<b>\$ 696,058</b>	<b>\$ 14,453,402</b>
<b>Noncash investing, capital and financing activities:</b>						
Fixed asset portion of contributed capital	\$ 254	\$ --	\$ --	\$ 254	\$ --	\$ 254
Assets acquired through capital leases	--	133	--	133	--	133
Addition of fixed asset through decrease in accounts payable	--	8,216	--	8,216	--	8,216

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Changes in Plan Net Assets**  
**Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 1997**  
(amounts expressed in thousands)

**Additions:**

Member Contributions	\$ 205,176
Employers Contributions	777,086
Investment Income	843,068
Other	<u>1,939</u>

Total additions	<u>1,827,269</u>
-----------------	------------------

**Deductions:**

Pension benefits	630,986
Disability benefits	12,511
Survivor benefits	6,799
Funeral benefits	36
Withdrawal refunds	36,224
Administrative	<u>6,880</u>

Total deductions	<u>693,436</u>
------------------	----------------

Operating transfers in (out)	<u>30,000</u>
------------------------------	---------------

Net increase (decrease)	1,163,833
-------------------------	-----------

Net assets held in trust for pension benefits, July 1, as restated	<u>10,342,826</u>
--	-------------------

<b>Net assets held in trust for pension benefits, June 30</b>	<b><u>\$ 11,506,659</u></b>
---	-----------------------------

The notes to the financial statements are an integral part of this statement.

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**State of Indiana**

**Combined Statement of Changes in Fund Balances - Discretely Presented**

**Component Units - Colleges and Universities**

**All Fund Types**

**For the Year Ended June 30, 1997**

(amounts expressed in thousands)

	Unrestricted Fund	Auxiliary Enterprise Fund	Restricted Fund	Loan Fund
<b>Revenues and other additions :</b>				
Current fund revenues	\$ 1,933,394	\$ 205,789	\$ --	\$ --
Grants, gifts and contracts	2,397	--	519,430	118,516
Appropriations	75,951	--	65,062	--
Additions to plant and facilities	--	--	--	--
Retirement of indebtedness	--	--	--	--
Endowment and investment income	3,711	883	7,450	2,579
Bond proceeds	--	--	--	--
Sales and services	--	--	9,603	108
Auxiliary services	8,861	251,794	--	--
Other additions	69	651	11,337	627
Total revenues and other additions	2,024,383	459,117	612,882	121,830
<b>Expenditures and other deductions :</b>				
Current fund expenditures	1,905,495	166,314	298,768	--
Restricted fund expenditures	--	--	23,791	--
Indirect costs recovered	--	--	60,847	--
Direct student loans issued	--	--	--	118,860
Loan cancellations and administration	--	--	--	414
Administration	--	--	--	478
Expended for plant facilities and disposals	--	--	12,894	5
Bond issued and issuance costs, retirements	--	--	--	--
Debt service requirements	--	--	--	--
Depreciation and amortization	--	--	--	--
Other deductions	571	265	208,186	381
Auxiliary services	--	269,449	--	--
Total expenditures and other deductions	1,906,066	436,028	604,486	120,138
<b>Excess of revenues and other additions over (under) expenditures and other reductions</b>	118,317	23,089	8,396	1,692
<b>Transfers from/to other funds</b>	(94,968)	(41,044)	5,443	315
<b>Discontinued operations:</b>				
Gain/(loss) on disposal, including estimated income of \$19,151 during phase-out period	--	10,042	--	--
Net increase/(decrease) in discontinued operations	--	10,042	--	--
<b>Net increase/ (decrease) for the year</b>	23,349	(7,913)	13,839	2,007
<b>Fund balance, July 1</b>	224,203	213,678	81,281	48,720
<b>Fund balance, June 30</b>	\$ 247,552	\$ 205,765	\$ 95,120	\$ 50,727

The notes to the financial statements are an integral part of this statement.

Endowment Fund	Unexpended Fund	Retirement of Indebtedness Fund	Renewal & Replacement Fund	Investment in Plant Fund	Totals
\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,139,183
7,276	38,178	459	--	4,409	690,665
--	43,739	--	2,398	--	187,150
--	1,006	--	--	321,174	322,180
--	84,550	4,022	--	132,888	221,460
22,997	25,069	2,902	9,940	--	75,531
--	--	17,855	--	--	17,855
--	--	--	--	--	9,711
--	--	--	--	--	260,655
738	13,186	3,401	668	28	30,705
31,011	205,728	28,639	13,006	458,499	3,955,095
4,674	--	--	--	--	2,375,251
--	--	--	--	--	23,791
--	--	--	--	--	60,847
--	--	--	--	--	118,860
--	--	--	--	--	414
985	211	180	--	--	1,854
--	248,997	--	12,263	7,335	281,494
--	--	998	--	294	1,292
--	1,973	146,785	--	103,104	251,862
--	--	--	--	162,315	162,315
2,244	8,999	1,741	5,325	183	227,895
--	--	--	--	--	269,449
7,903	260,180	149,704	17,588	273,231	3,775,324
23,108	(54,452)	(121,065)	(4,582)	185,268	179,771
(5,528)	53,125	100,951	8,834	(6,958)	20,170
--	--	--	--	(13,771)	(3,729)
--	--	--	--	(13,771)	(3,729)
17,580	(1,327)	(20,114)	4,252	164,539	196,212
356,171	81,876	66,008	212,546	1,638,147	2,922,630
\$ 373,751	\$ 80,549	\$ 45,894	\$ 216,798	\$ 1,802,686	\$ 3,118,842

**State of Indiana**  
**Combined Statement of Current Fund Revenues, Expenditures**  
**and Changes in Fund Balances - Discretely Presented**  
**Component Units - Colleges and Universities**  
**For the Year Ended June 30, 1997**  
(amounts expressed in thousands)

	Unrestricted Fund	Auxiliary Enterprise Fund	Restricted Fund	Totals
<b>Revenues:</b>				
Student tuitions and fees	\$ 742,401	5,326	2,299	\$ 750,026
Governmental appropriations	991,800	--	54,593	1,046,393
Federal, state and local grants and contracts	33,714	730	420,971	455,415
Auxiliary sales and services	79,395	451,469	8,242	539,106
Investment and endowment income	34,778	884	7,145	42,807
Other gifts and grants	8,367	--	33,041	41,408
Other revenues	133,859	58	9,175	143,092
Other additions	--	--	164	164
Total revenues	2,024,314	458,467	535,630	3,018,411
<b>Expenditures:</b>				
Instruction and departmental research activities	965,209	--	68,399	1,033,608
Auxiliary sales and services	11,480	435,763	168	447,411
Research	60,643	--	206,432	267,075
Academic support	231,875	--	9,558	241,433
Operation and maintenance of plant	215,442	--	80	215,522
Scholarships and fellowships	61,438	--	98,814	160,252
Public support	54,397	--	130,171	184,568
Student services	90,308	--	2,027	92,335
Student aid	8,193	--	25,749	33,942
Administrative and institutional support	206,509	--	2,410	208,919
Other expenses	8,787	1,663	--	10,450
Total expenditures	1,914,281	437,426	543,808	2,895,515
<b>Excess of revenues over (under) expenditures</b>	110,033	21,041	(8,178)	122,896
<b>Other financing sources (uses):</b>				
Excess of receipts over transfers	(21)	10,064	16,874	26,917
Net operating transfers in (out)	(86,663)	(39,018)	5,143	(120,538)
<b>Total other financing sources (uses):</b>	(86,684)	(28,954)	22,017	(93,621)
<b>Excess of revenues and other sources</b>				
<b>Over (under) expenditures and other uses</b>				
<b>and the net effect of the discontinued operation</b>	23,349	(7,913)	13,839	29,275
<b>Fund balance, July 1</b>	224,203	213,678	81,281	519,162
<b>Fund balance, June 30</b>	\$ 247,552	205,765	95,120	\$ 548,437

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA  
Notes to the Financial Statements and Required Supplementary Information  
June 30, 1997

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**STATE OF INDIANA**  
**Notes to the Financial Statements**  
**June 30, 1997**  
**( schedule amounts expressed in thousands )**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in three separate columns, one column for the governmental fund type, one for proprietary fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 1996 year end. The State Employee Deferred Compensation Plan which is part of the primary government, is also reported on a December 31, 1996 year end.

*Blended Component Units.*

The following are blended component units of the State of Indiana and are audited by outside auditors. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction, improvements, maintenance, repair and operation of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

### *Discretely Presented Component Units.*

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the governor to purchase education loans in the secondary market. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the \$100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the director of the Department of Financial Institutions, the director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities. Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance  
Authority  
101 W. Washington Street, Suite 1305E  
Indianapolis, IN 46204

Recreational Development  
Commission  
Government Center South, W256  
402 W. Washington Street  
Indianapolis, IN 46204

State Lottery Commission of Indiana  
Pan Am Plaza  
201 S. Capitol, Suite 1100  
Indianapolis, IN 46225

State Office Building Commission  
Government Center South, W478  
402 W. Washington Street  
Indianapolis, IN 46204

Indiana Development Finance  
Authority  
One North Capitol, Suite 320  
Indianapolis, IN 46204-2226

Secondary Market for Education  
Loans, Inc.  
8425 Woodfield Crossing Boulevard  
Suite 401  
Indianapolis, IN 46204

Board for Public Depositories  
101 W. Washington St., Suite 1301E  
Indianapolis, IN 46204

Indiana Bond Bank  
115 W. Washington St., Suite 1175S  
Indianapolis, IN 46204

Indiana Housing Finance Authority  
115 West Washington Street  
Suite 1350, South Tower  
Indianapolis, IN 46204

Accounting Services  
1062 Freehafer Hall  
Purdue University  
West Lafayette, IN 47907-1062

Richard W. Schmidt  
Vice President - Business Affairs  
University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712

Office of the Vice President  
and Chief Financial Officer  
Bryan Hall, Rm. 204  
Indiana University  
Bloomington, IN 47405-1202

Mark Husk  
Director of Budgeting and  
Accounting  
Indiana Vocational Technical  
College  
Indianapolis, IN 46206-1763

Robert J. Stryzinski  
Vice President-Financial  
Services  
Vincennes University  
1002 North 1st Street  
Vincennes, IN 47591

William A. McCune, Controller  
Administration Bldg., 103A  
2600 University Avenue  
Ball State University  
Muncie, IN 47305

Office of the Vice President  
for Planning and Budgets  
Parsons Hall, RM. 223  
Indiana State University  
Terre Haute, IN 47809

## B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

**Governmental funds** are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and

judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes collected within 30 days after the end of the fiscal year are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and assistance awards are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

**Proprietary funds** are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

*Enterprise funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

**Fiduciary funds** account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

**Account Groups.** The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

## **C. Assets, Liabilities and Equity**

### **1. Deposits and Investments**

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates market value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interests earned from the investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments with maturity dates in excess of three months after the purchase date are stated at cost or amortized cost except for those of the State Employee's Deferred Compensation Fund, the Legislators' Defined Contribution Fund, and the Bond and Money Market Funds of the State Teachers' Retirement Fund which are stated at market value. In addition, the pension trust funds and securities lending transactions are stated at fair value in accordance with GASB 25 and 28, respectively.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CD's) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CD's, repos and reverse repos secured by government securities, investment agreements and

commercial paper. Indiana code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines, except for the State Police Retirement Fund, which is governed by the guidelines set forth in the preceding paragraphs. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations; bankers' acceptances; finance bills; commercial paper; notes and debentures of commercial banks, bank holding companies, or thrift institutions organized under the laws of the U.S. corporate notes and debentures; asset-backed securities such as Collateralized Mortgage Obligations (CMO); Canadian corporate and/or government notes and debentures; and, Guaranteed Investment Contracts (GIC). Authorized investments for the remaining six retirement systems and the Pension Relief Fund, which is administered by the Public Employees' Retirement Fund, consist of: U.S. Treasury and Agency obligations, U.S. Government securities; corporate bonds, notes and debentures; repurchase agreements secured by U.S. Treasury obligations; commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. Wastewater Revolving funds and Medicaid funds held by a fiscal agent are included in the special revenue funds; employer taxes deposited into the unemployment compensation fund are transferred to and held by the federal unemployment trust, an expendable trust fund.

## **2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

The State has the following types of interfund transactions:

**Quasi-external Transactions** -- Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

**Reimbursements** -- Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

**Residual Equity Transfers** -- Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

**Operating Transfers** -- Legally authorized transfers other than residual equity transfers are reported as operating transfers.

Taxes collected during the month of July are accrued. These taxes include employee withholding and other individual income taxes, corporate income tax, sales tax, alcoholic beverage tax, motor fuel and motor carrier surcharge tax.

Due dates are as follows:

Sales, alcoholic beverage, gasoline and special fuel tax -- by the 20th day after the end of the month collected.

Corporate, motor fuel and motor carrier surcharge tax -- due on or before the last day of the month immediately following each quarter of the calendar year.

Employee withholding tax -- depending on the amount of total withholding, due by (1) the 20th day after the end of the month or (2) quarterly.

Individual income tax -- estimates due by the 15th of the month immediately following each quarter or the calendar year.

Tax refunds paid during the month of July are accrued as taxes payable as they are paid from current assets. These include individual, corporate and sales tax.

The State of Indiana does not collect property taxes; these are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

### ***3. Inventories and Prepaid Items***

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### ***4. Restricted Assets***

Certain assets of the proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

Restricted assets of the State Office Building Commission are designated for construction or liquidation of revenue bonds payable. Certain assets of the Recreational Development Commission are restricted for construction. A portion of Lottery Commission assets are reserved for the prize pool of the Multi-State Lottery Association. Restricted Toll Road assets are held for future debt service, transportation improvements and construction.

### ***5. Fixed Assets***

Fixed assets used in governmental fund types are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	5-10
Software	3

## **6. *Compensated Absences***

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

## **7. Long-term Obligations**

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

## **8. Fund Equity**

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

*Reserve for Tuition Support*--established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

*Reserve for Encumbrances*--established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

*Reserve for Advances Receivable*--established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

*Reserve for Intergovernmental Loans*--established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

*Reserve for Debt Service, Special Purposes*-- established to recognize that certain amounts have been set aside.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from other funds.

## **9. Memorandum Only -- Total Columns**

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Those special revenue funds subject to legally adopted budgets are presented in the Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual. Those special revenue funds excluded from this schedule, as compared to the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds, do not have legally adopted budgets. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The budgetary bill is enacted as the Appropriations Act which the Governor may veto, subject to legislative override. Except as specifically provided for in the Appropriations Act, appropriations or part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures in the fund centers.

Budgeted amounts are as adopted and as amended by supplemental appropriations that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

### **B. Budget/GAAP Reconciliation**

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

1. Revenues are recorded when they are earned (GAAP) as opposed to when cash is received (Budgetary).

2. Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (Budgetary).

Adjustments necessary to convert the results of operations at the end of the year on a budgetary basis to a GAAP basis are as follows:

	General	Special Revenue
Excess of revenues and other sources over (under) expenditures and other uses (budgetary basis)	\$ 190,574	\$ (97,236)
Adjustments:		
To adjust revenues for accruals	(71,895)	9,143
To adjust expenditures for accruals	(12,207)	31,774
Non-budgeted funds	--	81,391
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)	<u>\$ 106,472</u>	<u>\$ 25,072</u>

### C. Deficit Fund Equity

At June 30, 1997, various funds had deficit balances caused by cash overdrafts from pooled cash and investments; these deficits are reported as due to other funds. Other deficit balances are the result of accruals on the balance sheet.

Fund	Due to Other Funds	Accrual Deficit
<b>Special Revenue Funds</b>		
2330 - Perkins Vocational Education	\$	\$ ( 724 )
3500 - State and Federal Welfare Assistance		( 19,256 )
3520 - Title XX		( 6,435 )
3530 - Medicaid Assistance		( 108,984 )
3550 - Medicaid Administration		( 2,214 )
3590 - Bureau of Motor Vehicles Commission		( 37,148 )
3610 - U.S. Public Health Service		( 8,684 )
3630 - Child Welfare Services		( 167 )
3720 - Vocational Rehabilitation Division	( 289 )	
3750 - School Lunch	( 2,452 )	
3760 - Disability Determination Division	( 1,389 )	( 228 )
5250 - Food Service	( 1,358 )	( 425 )
6250 - Primary Road and Street	( 1,703 )	
6710 - Employment Security Administration		( 1,458 )
<b>Capital Projects Funds</b>		
2750 - Maj. Construction-IN Army National Guard	( 163 )	( 561 )
<b>Internal Service Funds</b>		
State Police Benefit Fund		( 936 )
<b>Expendable Trust Funds</b>		
6420 - Abandoned Property Fund		( 710 )
6730 - Employment Security Refunds		( 209 )
6740 - Employment Security Benefits		( 2,693 )
6770 - Federal Benefit		( 18 )
6780 - Trade Exp. Benefits		( 40 )

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits, Investments, and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterpart, or by its trust department or agent but not in the State's or unit's name.

Blended component units which are included in the financial statements as described in Section 1(A) account for \$260.6 million of the primary government's total investments (carrying amount) included in these totals.

Primary Government	Category			Carrying Amount	Market Value
	1	2	3		
Commercial paper	\$ 5,931	\$ 10,790	\$ --	\$ 16,721	\$ 16,762
Corporate debt/equity securities	1,142,810	2,012,299	--	3,155,109	3,310,599
Foreign bonds	--	103,540	--	103,540	104,490
Repurchase agreements	844,088	60,462	--	904,550	900,730
US Treasury & agency obligations	3,196,096	4,117,595	100,208	7,413,899	7,384,698
Bankers acceptances	973	--	--	973	974
Totals	\$ 5,189,898	\$ 6,304,686	\$ 100,208	11,594,792	11,718,253
Investments held by broker-dealers under securities loans				N/A	2,844,696
US Treasury & agency obligations				N/A	3,718,195
Securities lending short-term cash collateral investment pool				2,200,595	2,220,644
Pooled mortgage loans				280,177	280,177
Annuity contracts					
Totals - primary government				\$ 14,075,564	\$ 20,781,965
Significant Discretely Presented Component Units	Category			Carrying Amount	Market Value
	1	2	3		
Commercial paper	\$ 26,299	\$ --	\$ --	\$ 26,299	\$ 26,299
Corporate debt/equity securities					170,134
Not on Securities Loan	170,134				474
On Securities Loan	474			99,942	99,942
Repurchase agreements	99,942	--	--		
US Treasury & agency obligations			68,570	880,467	880,254
Not on securities loan	811,897	--	--	N/A	6,031
On securities loan	6,031	--	--		
Totals	\$ 1,114,777	\$ --	\$ 68,570	1,006,708	1,183,134
Investments held by broker-dealers under securities loans				N/A	2,050
Corporate bonds				N/A	26,065
US Treasury & agency obligations				N/A	29,105
Securities lending short-term cash collateral investment pool					
Investments held by broker-dealers under reverse repurchase agreements				100,045	98,241
US Treasury & agency obligations				93,887	93,887
Mutual funds					
Totals - significant discretely presented component units				1,200,640	1,432,482
Totals - Reporting Entity				\$ 15,082,272	\$ 21,965,099

State statutes and policies permit the state to lend securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan at year end are presented as unclassified at market (fair) value in the preceding schedule of custodial credit risk.

## B. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 1997 is as follows:

Receivable Fund	Fund Type	Payable Fund	Fund Type	Amount
<b>Due From/To Other Funds</b>				
Teachers Retirement	PT	PERF	PT	\$ 1,571
PERF	PT	State Lottery Commission	ENT	7,500
		Police & Firefighters' Pension	PT	565
		Estate & Conservation Pension	PT	70
		Judges Retirement	PT	76
		Teachers Retirement	PT	1,599
		Prosecuting Attorneys	PT	39
		Legislators' - Defined Benefit	PT	34
		State Employees' Death Benefits Fund	INT	30
		Public Employees' FICA (6540)	EXPT	28
		Pension Relief (6590)	SPRV	261
Administration Services Revolving	INT	Other	SPRV	31
		General Fund	GEN	363
		Teachers' Retirement	PT	30
		PERF	PT	20
		County Welfare Admin. (2100)	SPRV	633
		Motor Vehicle Highway (3010)	SPRV	373
		Fish & Wildlife (3420)	SPRV	16
		Title IV-D (3510)	SPRV	232
		Title XX (3520)	SPRV	2
		Welfare Work Incentive (3560)	SPRV	56
		BMV Commission(3590)	SPRV	1
		U.S. Public Health Service (3610)	SPRV	27
		Child Welfare Services (3630)	SPRV	144
		Criminal Justice Planning (3680)	SPRV	2
		Vocational Rehabilitation (3720)	SPRV	9
		Disability Determination (3760)	SPRV	20
		State Highway Department (4000)	SPRV	69
		Patients' Compensation (6020)	SPRV	2
		Employment Security (6710)	EXPT	212
		Institutional Industries (5150)	INT	2
General Fund	GEN	Other	SPRV	165
		State & Federal Welfare Assistance (3500)	SPRV	1,613
		Title XX (3520)	SPRV	1,433
		Medicaid Administration (3550)	SPRV	957
		Vocational Rehabilitation Division (3720)	SPRV	1,300
		School Lunch (3750)	SPRV	8,993
		Disability Determination (3760)	SPRV	1,349
		Food Service (5250)	SPRV	1,354
		Primary Road and Street (6250)	SPRV	1,703
		Other	SPRV	2,602
		Administration Services Revolving	INT	32
		State Employees Death Benefits Fund	INT	50
		Employment Security Benefit (6740)	EXPT	2,493
		Federal Benefit (6770)	EXPT	13
		Trade Exp. Benefits	EXPT	40
Industries and Farms	INT	Maj. Construction-IN Army National Guard (2750)	CP	163
		General Fund	GEN	674
		County Welfare Administration (2100)	SPRV	10
		Motor Vehicle Highway (3010)	SPRV	552
		Welfare Work Incentive (3560)	SPRV	4
		Bureau of Motor Vehicles (3590)	SPRV	1
		Vocational Rehabilitation Division (3720)	SPRV	1
		Mental Institutions (3890)	SPRV	5
		State Highway Department (4000)	SPRV	159
		Other	SPRV	39
U.S. Public Health Service (3610)	SPRV	Wastewater Revolving Fund	SPRV	670
Build Indiana Fund (3880)	CP	State Lottery Commission	ENT	32,646
Pension Relief (6590)	SPRV	State Lottery Commission	ENT	2,500
ITFA - Airport Facilities	DS	ITFA - Airport Facilities (Other)	SPRV	2,786
ITFA - Aviation Technology	DS	ITFA - Aviation Technology (Other)	SPRV	320
Total Due to/from other funds				<u>\$ 79,393</u>
<b>Interfund receivable/payable:</b>				
Toll Bridges	ENT	Interstate Bridge (6350)	CP	\$ 865
Motor Vehicle Highway (3010)	SPRV	BMV Commission(3590)	SPRV	34,390
Environmental Management (3240)	SPRV	Other	SPRV	388
General Fund	GEN	Other	SPRV	2,755
Total Interfund receivable/payable				<u>\$ 38,398</u>
<b>Advances to/from other funds:</b>				
Interstate Bridge	CP	Toll Bridges	ENT	\$ 2,291
Recreational Development Commission	INT	Inns & Concessions	ENT	484
Other	SPRV	Recreational Development Commission	INT	500
State Employee Health Insurance	INT	State Employee Disability Fund	INT	3,100
Total				<u>\$ 6,375</u>
GEN = General fund		CP = Capital projects		EXPT = Expendable trust
SPRV = Special revenue		ENT = Enterprise		AGY = Agency
DS = Debt service		INT = Internal service		PT = Pension Trust

### C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General	Special Revenue	Capital Projects	Total
Sales taxes	\$ 157,748	\$ 106,920	\$ --	\$ 264,668
Individual income taxes	300,637	--	--	300,637
Corporate taxes	42,005	--	--	42,005
Motor fuel taxes	--	9,055	--	9,055
Gasoline taxes	--	39,747	--	39,747
Alcoholic beverage taxes	1,387	--	1,587	2,974
Motor carrier surcharge taxes	--	4,263	--	4,263
Total receivables	<u>\$ 501,777</u>	<u>\$ 159,985</u>	<u>\$ 1,587</u>	<u>\$ 663,349</u>
Tax refunds payable	<u>\$ 45,706</u>	<u>\$ 5,061</u>	<u>\$ --</u>	<u>\$ 50,767</u>

### D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 1997, was as follows. Figures include assets with an individual cost of \$5,000 or more. Infrastructure assets are not included.

	Balance July 1, As Restated	Additions	Retirements	Balance June 30, 1997
Land	\$ 119,231	\$ 592	\$ --	\$ 119,823
Buildings and improvements	1,002,726	3,281	2,729	1,003,278
Furniture, machinery and equipment	355,149	12,335	46,812	320,672
Total general fixed assets	<u>\$ 1,477,106</u>	<u>\$ 16,208</u>	<u>\$ 49,541</u>	<u>\$ 1,443,773</u>

The following is a summary of proprietary fund type fixed assets at June 30, 1997. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise Funds	Internal Service Funds
Buildings, land and improvements	\$ 542,012	\$ 486,319
Furniture, machinery and equipment	40,418	34,261
Less: accumulated depreciation	(374,562)	(87,356)
Construction in progress	12,528	31,197
Totals	<u>\$ 220,396</u>	<u>\$ 464,421</u>

Fixed assets of the significant discretely presented component units include \$2,351.5 million for Indiana University, less accumulated depreciation of \$1,052.3 million; \$1,377.5 million for Purdue University, less accumulated depreciation of \$601.1 million.

## E. Leases

### *Operating Leases*

The State leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases with aggregate payments of \$5,000 or more were \$29.6 million for the year ended June 30, 1997. The future minimum lease payments (excluding executory costs) for these leases are as follows:

Year Ending June 30,	Amount
1998	\$ 27,466
1999	22,562
2000	17,440
2001	9,424
2002	4,418
Thereafter	48,759
Total	<u>\$ 130,069</u>

### *Capital Leases*

The State has entered into various lease agreements with aggregate payments of \$5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long term debt account group.

The assets acquired through capital leases with aggregate payments of \$5,000 or more are as follows:

	General Fixed Assets	Proprietary Funds
Machinery and equipment	\$ 2,429	\$ 133
Less: Accumulated depreciation	--	6
Total	<u>\$ 2,429</u>	<u>\$ 127</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 1997, were as follows:

Year Ending June 30	General Long-term Debt	Proprietary Funds
1998	\$ 3,219	\$ 975
1999	1,364	971
2000	598	192
2001	290	33
2002	257	--
Thereafter	925	--
Total minimum lease payments	6,653	2,171
Less:		
Amount representing interest	918	169
Amount representing executory costs	2	--
Present value of net minimum lease payments	<u>\$ 5,733</u>	<u>\$ 2,002</u>

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling \$44.6 million, of which \$14.3 million represents interest; Indiana University's liability for capital leases is \$1.9 million, of which \$.4 million represents interest.

#### F. Long-term Debt

*Revenue Bonds.* Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Long-term debt of the proprietary funds represents revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana

Transportation Finance Authority Toll Roads. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E), compensated absence obligations, and litigation liabilities.

*General Long-Term Debt Account Group:*

Indiana Transportation Finance Authority Highway Revenue Bonds -- In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. On March 26, 1993, the Authority refunded a portion of their 1988A & B Series Bonds. The amount of defeased debt still outstanding, but removed from the General Long-Term Debt Account Group as of June 30, 1997, was \$100.9 million.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of \$27,110,000 with interest rates from 3.85% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. The economic gain resulting from the refunding transaction was \$592,763. As of June 30, 1997, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was \$24.8 million.

Airport Facilities Revenue Bonds -- On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of \$201.3 million. Additionally, Series 1995A parity bonds in the amount of \$29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of \$137,790,000 with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The economic gain resulting from the transaction was \$3,861,988. There was a net cash flow savings, unadjusted for time value of money of \$4,359,849 on the transaction, resulting from the difference between refunded and refunding debt service. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 1997 was \$127,035,000.

Aviation Technology Center Lease Bonds, Series A -- On November 1, 1992, The Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of \$11.6 million. As of June 30, 1997, the bonds outstanding were \$10.9 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

*Proprietary Funds:*

Indiana State Office Building Commission -- Beginning in 1986, the State Office Building Commission has issued revenue bonds to provide funds for the design and construction of two state parking garages, the Indiana Government Center South, and the renovation of the Indiana Government Center North. Bonds have also been issued to fund the acquisition, design, construction and equipping of certain correctional

facilities. These bonds will be repaid by rental charges paid by the state for use of the buildings. When the bonds are paid in full, the buildings and land will be deeded back to the State of Indiana.

In order to take advantage of lower interest, on September 8, 1993, the Commission issued \$178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. The amount of defeased debt still outstanding at June 30, 1997 was \$157.8 million.

Recreational Development Commission -- In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns will repay the bond issues in 20 years; the buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption. As of June 30, 1997 the amount of defeased debt still outstanding was \$6 million.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority Toll Roads - As a part of the Transportation Finance Authority, the East-West Toll Road component unit issued revenue refunding bonds in 1985 and 1987 for the early redemption of previous bond issues. Revenues from the toll road and restaurant concessions are used to repay these bond issues.

In October 1993, the Authority issued \$76 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding 1985 Series. The amount considered defeased and removed from the balance sheet is \$67 million.

During October 1996, the authority issued \$134.8 million of Series 1996 Revenue Refunding Bonds with interest rates from 3.9% to 6.5%. The proceeds were placed in trust for the purpose of generating resources for future debt service payments on the Series 1987 Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,496,599. There was an economic gain of \$4,721,698 on the transaction. At June 30, 1997, the amount of Series 1987 bonds outstanding but removed from the Balance Sheet was \$127.1 million.

Revenue bonds outstanding at June 30, 1997 (less unamortized discount of \$26.8 million) are as follows.

Purpose	Interest Rates	Amount
<b>General Long-Term Debt Account Group</b>		
Highway construction and improvement	3.85-7.25%	\$ 323,093
Aviation technology center construction	4.90-6.50%	10,880
Airport facility construction	4.50-6.87%	236,315
<b>Proprietary Funds</b>		
Construction and renovation of state buildings	2.75-7.40%	\$ 507,703
Renovation of state parks	4.00-6.13%	24,724
Acquisition, construction of toll roads	3.90-9.50%	275,524

Revenue bond debt service requirements to maturity, including \$1,005.6 million of interest, are as follows.

Fiscal Year Ending June 30,	Proprietary Funds	General Long- Term Debt Account Group	Total
1998	\$ 66,085	\$ 45,047	\$ 111,132
1999	69,106	45,965	115,071
2000	70,204	46,305	116,509
2001	70,149	46,657	116,806
2002	73,292	47,738	121,030
Thereafter	1,063,972	750,800	1,814,772
Total	<u>\$ 1,412,808</u>	<u>\$ 982,512</u>	<u>\$ 2,395,320</u>

Changes in Long-Term Liabilities: During the year ended June 30, 1997, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance July 1, 1996 As Restated	Accretions & Additions	Reductions	Balance June 30, 1997
Compensated absences	\$ 88,217	\$ 54,680	\$ 52,693	\$ 90,204
Revenue bond debt	566,778	168,830	165,320	570,288
Litigation liabilities	2,356	--	1,869	487
Capital leases	6,325	2,429	4,735	4,019
Totals	<u>\$ 663,676</u>	<u>\$ 225,939</u>	<u>\$ 224,617</u>	<u>\$ 664,998</u>

## Discretely Presented Component Units:

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1,425.1 million, and interest rates ranging from 3.35% to 13.12%. In February 1993, under the encouragement of the U.S. Department of Housing and Urban Development, the authority issued the 1993 Series A Multi-Unit Mortgage Program Bonds in the amount of \$8.9 million with interest rates ranging from 3.7% to 6.7% to refinance its 1982 Series A bonds, which were subject to the Housing and Urban Development Financing Adjustment Factor. As of December 31, 1996 the Authority's fiscal year end, the outstanding defeased debt was \$7.9 million.

During 1993 the Authority used three bank loans to redeem bonds in the 1983A, B, and C Series and the 1984A and B Series Single Family Mortgage Indenture Series; the principal amount of these loans totalled \$31.8 million.

The authority exercised its option to redeem all of the 1980 Single Family Indenture and the 1984C Series Serial and Term bonds on January 1, 1995. There were no gains on the sale of securities directly associated with this optional redemption. The proceeds for this transaction were generated by a combination of cash and reserves held within the 1984C and excess cash reserved from uncommitted funds within the parity indenture.

During 1995, the Authority exercised its option to redeem all of the 1980 Single Family 1985 A and 1985 B serial and term bonds, with no gain on the transactions. The redemption was accomplished in conjunction with the issuance of Single Family Mortgage Revenue Serial and Term Bonds Series A, B, C and D totaling \$149.8 million, with interest rates from 3.85% to 6.6% and a maturity range of 32 years.

The Indiana Bond Bank -- The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. Total outstanding debt as of June 30, 1997, was \$977.4 million. The Bond Bank has, in the past, issued bonds to provide resources to be placed in trust for the payment of future debt services. At June 30, 1997, the amount of defeased debt outstanding was \$47 million.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital and academic facilities. The outstanding long-term bonded indebtedness at June 30, 1997 was \$540.7 million with interest rates ranging from 2.75% to 7.75% for Indiana University and \$437.2 million at 2.6% to 9.5% for Purdue University.

## G. Contributed Capital

The changes in contributed capital for proprietary funds were as follows:

	Inns and Concessions	Institutional Industries	Administration Services Revolving	State Office Building Commission	Total
Beginning balance, contributed capital	\$ 7,749	\$ 8,378	\$ 990	\$ 9,981	\$ 27,098
Contributing sources:					
General fund	--	500	--	--	500
General fixed assets	254	--	--	--	254
Return of capital:	145	--	--	--	145
Ending balance, contributed capital	<u>\$ 7,858</u>	<u>\$ 8,878</u>	<u>\$ 990</u>	<u>\$ 9,981</u>	<u>\$ 27,707</u>

## H. Reserves

Reserved fund balances/retained earnings are as follows:

Reserved/Restricted for:	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Non- Expendable Trust Fund	Total
Tuition support	\$ 240,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 240,000
Encumbrances	47,401	665,585	--	11,103	--	--	--	724,089
Advances	--	500	--	2,291	--	3,584	--	6,375
Intergovernmental loans	10,945	155,411	--	4,437	--	--	241,883	412,681
Debt service	--	--	9,514	--	--	--	--	9,514
Special purposes	--	--	--	--	6,721	--	--	6,721
	<u>\$ 298,346</u>	<u>\$ 821,496</u>	<u>\$ 9,514</u>	<u>\$ 17,831</u>	<u>\$ 6,721</u>	<u>\$ 3,584</u>	<u>\$ 241,883</u>	<u>\$ 1,399,380</u>

Significant discretely presented component units include a reserve for endowments of \$368.2 million for colleges and universities, and a reserve for encumbrances of 5.5 million for the Development Finance Authority.

## I. Restatements and Reclassifications

For the fiscal year ended June 30, 1997, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. The following schedule presents a summary of restated beginning balances by fund type. New Funds represents the inclusion of existing funds which were not presented in the prior report. The pension trust fund prior period adjustment is due to the implementation of GASB 25. The other prior period adjustment are errors not individually material to the financial statements.

	June 30, 1996 As Reported	New Funds	Prior Period Adjustments	Balance July 1, 1996 As Restated
<b>Fund Balances:</b>				
Special Revenue	1,612,610	1,233	11,637	1,625,480
Expendable Trust	1,273,313	4,065	--	1,277,378
Enterprise	86,246	--	(3,974)	82,272
Internal Service	(7,314)	--	32,725	25,411
Pension Trust	10,309,439	--	33,387	10,342,826

The Indiana Development Finance Authority's beginning retained earnings of \$12.8 million was restated from the prior year's \$12.7 million. Colleges and Universities beginning retained earnings was restated from \$2,943.7 million to \$2,922.6 million. This restatement was due to prior period adjustments.

## IV. OTHER INFORMATION

### A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State's policy is generally not to purchase commercial insurance for the risk losses to which it is exposed. Instead, the State records as an expenditure any loss as the liability is incurred or replacement items are purchased. The State does purchase a limited amount of insurance to limit the exposure to errors, omissions, and theft by employees.

The State does have risk financing activity for the state employees' disability, state employees death benefits, certain state employees health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. Total claims liability incurred but not reported for the disability program is not reasonably estimable. The liabilities only include the amounts required for current payments on claims that have been reported. The claim liabilities for the two health insurance programs were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the minimum liability of disability payments. Claims expenses and liabilities were not reasonably estimable for death benefits.

	1997	1996
Unpaid Claims, Beginning of Year	\$ 9,751	\$ 13,068
Incurred Claims and Changes in Estimates	75,018	79,936
Claims Paid	(75,081)	(83,253)
Unpaid Claims, End of Year	\$ 9,688	\$ 9,751

The trustees of Indiana University, Purdue University, Indiana State University, and Ball State University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; error or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. At June 30, 1997, the combined estimated unpaid health care claims totaled \$27.3 million.

#### B. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging throughout the year for state park tourists, and dining at Fort Benjamin Harrison. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 1997.

	Inns and Concessions	Toll Bridges	Toll Roads	State Lottery Commission	Malpractice Insurance Authority	Total
Operating revenue	\$ 12,773	\$ 762	\$ 80,795	\$ 578,931	\$ 1,451	\$ 674,712
Depreciation & Amortization	358	104	9,457	1,056	--	10,975
Operating income (loss)	(1,132)	320	42,089	171,977	227	213,481
Operating transfers (out)	--	--	--	(176,627)	--	(176,627)
Net income	(1,045)	312	26,754	(308)	1,114	26,827
Current capital contributions	254	--	--	--	--	254
Fixed asset additions	40,115	--	16,558	1,597	--	58,270
Net working capital	1,071	2,508	145,836	42,629	2,946	194,990
Total assets	12,468	3,457	385,447	151,349	15,010	567,731
Bonds payable	--	--	273,994	--	--	273,994
Total equity	9,055	1,131	98,688	5,137	2,946	116,957

### C. Related Party Transactions

During the fiscal year, the Public Employees Retirement Fund ( PERF) leased office space owned by the fund to lessees which are agencies of the State of Indiana and have employees in the retirement plan. PERF also leased space to Prime Capital Management, which is a contracted investment manager for PERF.

The following table summarizes the lessees and the financial information for the fiscal year ended June 30, 1997.

Related Party Transactions	Inception Date	Renewal Date	Annual Amount
Department of Revenue	8-18-95	8-17-97	\$ 42
Governor's Planning Council for People with Disabilities	1-1-89	12-31-96	10
Prime Capital Management	5-1-88	01-31-01	5
			<u>\$ 57</u>

#### **D. Subsequent Events**

In September 1997, the Indiana Bond Bank, a significant discretely presented component unit, passed a resolution that authorized a new issuance of bonds to benefit the Wastewater Revolving Fund in the amount of \$85 million. It is expected that this new series will be issued during fiscal year 1998.

#### **E. Contingencies and Commitments**

*Litigation.* The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be in excess of \$15 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. The Court of Appeals affirmed the decision and a petition for rehearing is pending. If unsuccessful in this litigation, the State would forfeit savings of up to \$30 million.

In September 1992 a settlement in the amount of \$6.5 million was accepted by both parties involved regarding a disallowance invoked by the Health Care Financing Administration of the United States Department of Health and Human Services against the State of Indiana. The unpaid balance of \$487,000 has been accrued in the general long-term debt account group.

*Federal Grants.* The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

*Construction Commitments.* As of June 30, 1997, the Indiana Transportation Finance Authority Highway Bonds, which is included in the financial reporting entity of the State of Indiana as a special revenue fund, did not have any commitments for unfinished highway construction projects.

#### **F. Other Revenue**

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received. For those funds which contain only "other" revenues, amounts represent refunds of prior year expenditures. These refunds are accounted for as "other" revenues in order to prevent the improper supplementation of current year appropriations.

#### **G. Economic Stabilization Fund**

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was

established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The aggregate amount of loans authorized by the General Assembly totaled \$55.3 million; outstanding loans at the end of fiscal year 1996 totaled \$2.4 million. The Rainy Day Fund cash and investment balance at the end of fiscal year 1997 was \$467.3 million. Total outstanding loans were \$1.8 million, resulting in total assets of \$469.1 million.

#### **H. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and right of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The State believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

In accordance with GASB Statement No. 2, plan balances have been reported at market value in the accompanying financial statements as an agency fund. These balances are as of December 31, 1996.

#### **I. Discontinued Operations - Discretely Presented Component Units - Colleges and Universities**

On May 2, 1996, the Board of Trustees for Indiana University, a significant discretely presented component unit, signed a Definitive Agreement with Methodist Hospital of Indiana, Inc. for the consolidation of Riley Hospital for Children, Indiana University Hospital and Methodist Hospital of Indiana, Inc., into a new, not-for-profit health corporation known as Clarian Health partners, Inc. (Clarian). The separation date of Riley Hospital for Children and Indiana University hospital from Indiana University was December 31, 1996.

##### ***Balance Sheet***

In accordance with the Agreement, the placement of the assets and liabilities on the separation date had the cash and temporary investments, buildings, accounts payable, accrued vacation liability, accrued payrolls, notes payables and bonds payable staying with Indiana University. The Indiana University

Hospital Facilities Revenue Bonds were defeased on December 31, 1996 by Clarian. The accounts receivable, inventories, prepaid expenses, other assets, capital equipment, deferred income, and other liabilities were transferred to Clarian on the separation date.

The Net Assets and Liabilities of Hospitals balance that is stated in the Balance Sheet for June 30, 1996 in the amount of \$91,951,000 represents the balances transferred to Clarian Health Partners, Inc. The assets and liabilities of University Hospitals that remained with Indiana University are included with the Balance Sheet under Auxiliary Enterprises and Service. These amounts represent cash and temporary investments of \$49.6 million, accounts payable of \$8.1 million and Fund Balance of \$41.4 million. These items have been identified separately in this balance sheet section. In accordance with the Agreements, all remaining University Hospital cash will be retained by Indiana University and will be spent for the benefit of Clarian.

A separate Lease Agreement was executed by Indiana University as Lessor and Clarian as Lessee allowing for the lease of the University Hospital Facility and Riley Hospital for Children Facility for an annual lease amount of One Dollar (\$1.00).

### *Change in Fund Balance*

The Riley Hospital for Children and Indiana University Hospital segments are identified in the Change in Fund Balance and are reported under Discontinued operations. Detailed revenues and expenditures on operations and the disposal of Riley Hospital for Children and Indiana University are as follows:

Income from Discontinued Operations		\$13,681
Loss on Disposal:		
Current Assets to Clarian Health Partners	(78,490)	
Capital Equipment to Clarian Health Partners	(51,056)	
Long-term Liabilities defeased by Clarian Health Partners	37,678	
Separation Costs related to Disposal (estimated):		
PERF Vesting Adjustments *	(600)	
Early Retirement Employee Buyouts	(375)	
Loss of Disproportionate Share *	(21,500)	
Intergovernmental Transfers to the Medicaid		
Indigent Care Trust Fund	(44,968)	
Indiana Health Care Inc. Funding *	(17,000)	
Attorney and Consultant Fees	(3,882)	
Total Separation Costs related to Disposal	(88,325)	
Phase Out Net Income	22,500	
Total Loss on Disposal		(157,693)
Net Decrease in Fund Balance		<u><u>(\$144,012)</u></u>

\* Estimated for June 30, 1997

**J. Discretely Presented Component Units – Condensed  
Financial Statements**

**Balance Sheet – Major Discretely Presented Component Units**

	Indiana University	Purdue University	Indiana Bond Bank	Housing Finance Authority	Total
<b>Assets</b>					
Current assets	\$ 736,064	\$ 1,002,104	\$ 1,012,548	\$ 722,348	\$ 2,750,716
Property, plant and equipment	1,292,250	776,333	--	108	2,068,583
<b>Total assets</b>	<u>\$ 2,028,314</u>	<u>\$ 1,778,437</u>	<u>\$ 1,012,548</u>	<u>\$ 722,456</u>	<u>\$ 4,819,299</u>
<b>Liabilities</b>					
Current liabilities	\$ 200,663	\$ 285,151	\$ 26,060	\$ 4,252	\$ 511,874
Revenue bonds and notes payable	540,787	437,217	979,746	627,018	1,957,750
<b>Total liabilities</b>	<u>741,450</u>	<u>722,368</u>	<u>1,005,806</u>	<u>631,270</u>	<u>2,469,624</u>
<b>Equity</b>					
Investment in general fixed assets	819,158	468,404	--	--	1,287,562
Reserved fund balance	85,158	261,111	--	--	346,269
Unreserved fund balance	382,548	326,554	6,742	91,186	715,844
<b>Total equity</b>	<u>1,286,864</u>	<u>1,056,069</u>	<u>6,742</u>	<u>91,186</u>	<u>2,349,675</u>
<b>Total liabilities and equity</b>	<u>\$ 2,028,314</u>	<u>\$ 1,778,437</u>	<u>\$ 1,012,548</u>	<u>\$ 722,456</u>	<u>\$ 4,819,299</u>

**Statement of Changes in Fund Balances – Major Discretely Presented Component Units -  
Colleges and Universities**

	Indiana University	Purdue University	Totals
<b>Revenues and other additions :</b>			
Current fund revenues	\$ 1,340,343	\$ 932,644	\$ 2,272,987
Additions to plant and facilities	128,210	93,626	221,836
Retirement of indebtedness	113,788	81,916	195,704
Other additions	285,203	63,735	348,938
<b>Total revenues and other additions</b>	<u>1,867,544</u>	<u>1,171,921</u>	<u>3,039,465</u>
<b>Expenditures and other deductions :</b>			
Current fund expenditures	1,043,203	874,196	1,917,399
Expended for plant facilities and disposals	121,792	77,455	199,247
Bond issued and issuance costs, retiremen	--	1,052	1,052
Debt service requirements	99,176	119,007	218,183
Depreciation and amortization	64,260	55,660	119,920
Other deductions	449,197	2,099	451,296
<b>Total expenditures and other deductions</b>	<u>1,777,628</u>	<u>1,129,469</u>	<u>2,907,097</u>
<b>Transfers from/to other funds</b>	<u>20,462</u>	<u>--</u>	<u>20,462</u>
<b>Discontinued operations:</b>			
Gain/(loss) on disposal, including estimated income of \$19,151 during phase-out period	(3,729)	--	(3,729)
<b>Increase/(decrease) due to discontinued operations</b>	<u>(3,729)</u>	<u>--</u>	<u>(3,729)</u>
<b>Net increase/ (decrease) for the year</b>	<u>106,649</u>	<u>42,452</u>	<u>149,101</u>
<b>Fund balance, July 1, as restated</b>	<u>1,180,215</u>	<u>1,013,617</u>	<u>2,193,832</u>
<b>Fund balance, June 30</b>	<u>\$ 1,286,864</u>	<u>\$ 1,056,069</u>	<u>2,342,933</u>

**Statement of Current Fund Revenues, Expenditures and Changes in Fund Balance -  
Major Discretely Presented Component Units - Colleges and Universities**

	<u>Indiana University</u>	<u>Purdue University</u>	<u>Total</u>
Revenues:	\$ 1,378,703	\$ 891,022	\$ 2,269,725
Expenditures:	<u>1,339,872</u>	<u>842,032</u>	<u>2,181,904</u>
Excess of revenue over (under) expenditures:	38,831	48,990	87,821
Other financing sources (uses):	<u>(25,084)</u>	<u>(36,545)</u>	<u>(61,629)</u>
Excess of revenues and Other sources over (under) expenditures and other uses:	13,747	12,445	26,192
Fund balance, July 1, as restated	<u>241,034</u>	<u>160,963</u>	<u>401,997</u>
Fund balance, June 30	<u>\$ 254,781</u>	<u>\$ 173,408</u>	<u>\$ 428,189</u>

**Statement of Revenues, Expenses and Changes in Retained Earnings/Equity -  
Major Discretely Presented Component Units - Proprietary Fund**

	<u>Indiana Bond Bank</u>	<u>Housing Finance Authority</u>	<u>Total</u>
Operating revenues	\$ 333	\$ 37,909	\$ 38,242
Operating expenses:			
Depreciation	3,105	1,230	4,335
Other	<u>1,881</u>	<u>5,579</u>	<u>7,460</u>
Total operating expenses	<u>4,986</u>	<u>6,809</u>	<u>11,795</u>
Nonoperating revenues (expenses):	5,265	(21,099)	(15,834)
Net income	612	10,001	10,613
Retained earnings - beginning	<u>6,130</u>	<u>81,185</u>	<u>87,315</u>
Retained earnings - ending	<u>\$ 6,742</u>	<u>\$ 91,186</u>	<u>\$ 97,928</u>

## **K. Employee Retirement Systems and Plans**

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements as pension trust funds.

### ***Public Employees' Retirement Fund***

*Plan Description.* The Public Employees' Retirement Fund (PERF) is an agent multiple-employer Public Employee Retirement System (PERS) and a defined benefit plan that acts as a common investment and administrative agent for units of state and local governments in Indiana. Established in 1945 and governed by IC 5-10.2 and IC 5-10.3, this trust fund provides a retirement program for most officers and employees of the State of Indiana who are not eligible for another program. The fund also covers many officers and employees of municipalities of the State, including counties, cities, towns, townships and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classification of employees who will become members of the fund, and is filed with and approved by the PERF Board of Trustees. In order to be a member, employees hired after June 30, 1993 must occupy positions normally requiring performance of service of one thousand hours during a year. School corporation employees however, as well as those hired before July 1, 1982, must occupy positions requiring service of six hundred hours during a year.

The PERF retirement benefit consists of the sum of a pension provided by employer contributions plus an annuity of the amount credited to the member in their annuity savings account. The mandatory employers' contributions are a percentage of payroll determined by PERF's actuary necessary to fund the pension benefit in accordance with IC 5-10.2-2-11. The annuity savings account consists of members' contributions, set by statute at three percent of the compensation, plus interest credited to the members' accounts. The employer may elect to make the contributions on behalf of the member. At retirement a member may choose to receive a lump sum payment of the amount credited to the member in his/her annuity savings account instead of the annuity. The annuity savings account may be withdrawn at any time should an employee terminate employment prior to retirement.

All benefits vest after ten years of creditable service. When benefit rights are vested, employees may retain them even if they withdraw from active service before normal retirement age.

A member who is at least sixty-five years of age with ten years of creditable service or sixty years of age with fifteen years of creditable service may retire and become eligible for full benefits. An employee may also retire with full benefits if the employee is at least fifty-five years of age and the sum of the employee's creditable service and age equal at least eighty-five. Employees who have attained the age of fifty and have accrued at least fifteen years of creditable service may retire and receive benefits at a reduced rate.

PERF also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death in service of a member with fifteen or more years of creditable service a survivor benefit may be paid to the spouse or designated dependent beneficiary. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age fifty or at his death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

The actuarial cost method used in the valuation is the entry age normal cost method in accordance with IC 5-10.2-2.9. The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account which funds the annuity portion of the retirement benefit. Based on the actuarial valuation at June 30, 1996, employer (state) and employee (state) contributions required were \$73.7 million normal cost and \$6.7 million amortization of the unfunded actuarial accrued liability. The total amount of contributions intended to cover normal cost was \$170.3. The total amount intended to cover amortization of unfunded actuarial accrued liability was \$12.1 million. The actuarially determined state contribution amount is \$79.1 million. The employee state contribution amount is not actuarially determined. It is determined by statute to be 3% of covered payroll. Contributions made by all employers for the year ended June 30, 1996 totaled \$185.9 million which was 6.1% of covered payroll. Employer contributions made by the state for state employees was \$78 million which was 6.3% of covered payroll. Contributions made by state employees was \$38.2 million which was 3% of covered payroll.

*Trend Information.* See table on page 58.

### ***State Teachers' Retirement Fund***

*Plan Description.* The State Teachers' Retirement Fund (STRF), a defined benefit, multiple-employer cost-sharing PERS, was established in 1915 and governed by IC 21-6.1 to provide coverage for persons engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana. No individuals covered by this plan are state employees.

The State appropriates sufficient funds to cover the annual cost of the defined benefit portion of the benefit, plus an amount sufficient to cover the cost of post annuity increases. The cost of active member current service is deferred until retirement occurs. There is a defined contribution portion of the plan which may be withdrawn if an employee terminates employment; however, the employee is not required to withdraw contributions at the time of termination. The plan also contains disability and survivor benefits. An employee who retires at or after the age of 65 with ten or more years of service is entitled to 100 percent of the defined benefit pension. This annual pension benefit is equal to 1.1 percent times the final average annual salary times the number of years of STRF covered employment. Employees who retire between the ages of 50 and 64 receive a pension benefit ranging from 43.6 percent to 98.8 percent of the full benefit described above. However, if an employee is at least 55 years old and his age plus number of years of STRF covered employment total is at least 85, then 100 percent benefit is entitled.

*Funding Status.* See table on page 57.

### *Contribution Requirements and Contributions Made.*

The Indiana State Teachers' Retirement Fund funding policy is a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. These appropriations include revenues from the State Lottery Commission.

*Trend Information.* See table on page 58.

### **State Police Retirement Fund**

*Plan Description.* The State Police Retirement Fund (SPRF), a defined benefit, single employer PERS, was established in 1937 by IC 10-1-2 to provide coverage for any regular police employee or regular limited police employee of the Department of State Police. In 1987, the plan was revised both in benefits and requirements for vesting under IC 10-1-2.3.

The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The accumulated value of the member's contribution, including interest, may be withdrawn if the employee terminates employment prior to retirement. Employer contributions are actuarially determined.

State police officers, under this plan, can retire at age 45 with 20 years of service and have mandatory retirement at age 55. Vesting occurs after ten years service. The basic monthly pension amount may not exceed 50 percent of the minimum monthly salary of a third year trooper. An employee with over 20 years service will receive incremental increases based upon total years of service but the additional amount may not exceed 70 percent of the basic pension amount.

The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989.

Participants under the 1987 plan contribute six percent of their monthly base salary. The accumulated value of the member's contribution, including interest, may be withdrawn if the employee terminates employment prior to retirement. Employer contributions are determined actuarially.

Police under this plan can retire with 25 years of service, however, the mandatory retirement age is 55. Vesting occurs after five years of service. Basic monthly benefits may not exceed 50 percent of the employee's highest average salary for three consecutive years. Those employees that retired from July 1, 1987 through June 30, 1988 are limited to one-half of the maximum monthly salary of a first sergeant. Retirees from July 1, 1988 through July 1, 1989 shall not exceed one-half of the maximum salary of a captain. Employees with more than 25 years of service receive incremental increases based on years of service limited to 57 percent of the basic monthly benefit. The two State Police plans have been reported together in the following tables included in this note for the current year.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Total contributions to the pension plan for the fiscal year ended June 30, 1997 amounted to \$12 million of which \$9.4 million and \$2.6 million were made by the State Police and its employees, respectively. The State Police Contributions amount is based on actuarial valuations. Based on the actuarial valuation at July 1, 1997, the total contributions (employer and employee) required were \$5.9 million for normal cost funding and \$2.7 million for the amortization of the unfunded actuarial accrued liability. The actuarially determined state contribution amount is \$9.4 million and the employee amount is \$2.65 million. Contributions made by the State Police and its employees represent 21.0%, and 6%, respectively, of covered payroll for the year.

The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

*Trend Information.* See table on page 58.

### ***1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF)***

*Plan Description.* The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a defined benefit, multiple employer cost sharing Public Employees Retirement System. The fund was established in 1977 by IC 36-8-8 to provide coverage to full-time, sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township, or county. The 1977 Police Officers' and Firefighters' Pension and Disability Fund is administered by the Public Employees' Retirement Fund Board of Trustees. No state employees are members of this fund.

A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. The accumulated value of the member's contribution, including interest, may be withdrawn if the employee terminates employment prior to completing twenty years of service. Employer contributions are determined actuarially. An employee who retires at or after the age of fifty-five with twenty years of service is entitled to fifty percent of the prevailing salary of a first-class officer, as defined by the local unit, plus one percent for each six-month period over twenty years. The maximum benefit is seventy-four percent of the salary of a first-class officer. The plan also contains disability and survivor benefits. Benefit calculations are as specified by state statute.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll. The member contribution rate is not actuarially determined, but was established by statute at six percent of the salary of a first class officer. The employer contribution rate is actuarially determined using the entry age normal cost method. The total required to actuarially fund normal cost is reduced by the total estimated member contributions. The fund has no unfunded actuarial accrued liability. As the 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. All participating employers were required to contribute twenty-one percent of the salary of a first class officer or fire fighter during the fiscal year ended June 30, 1994.

The actuarial valuation as of January 1, 1996, determined the total required annual contribution to be \$68.5 million, which consists of \$74 million normal cost less \$5.5 million amortization of unfunded liability. Employee contributions were estimated to be \$14.2 million. The remainder of \$55.8 million was the total required employer contribution. The member contributions made during the fiscal year ended June 30,

1996 were \$13.3 million, and the employer contributions totaled \$45.3 million. The member and employer contributions as a percentage of current covered payroll were 6% and 20.5%, respectively.

The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

*Trend Information.* See table on page 58.

### ***Excise Police and Conservation Enforcement Officers' Retirement Fund***

*Plan Description.* The Excise Police and Conservation Enforcement Officers' Retirement Fund was established in 1972, and governed by IC 5-10-5.5. The retirement fund is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Retirement survivor benefits vest after fifteen years of creditable service. Every participant is required to retire on or before the first day of the month following the participant's sixtieth birthday. A participant who is at least fifty-five years of age and the sum of the participant's years of creditable service and age in years equals at least eighty-five (85) may retire and become eligible for benefits. A step rate benefit formula specified by statute is used to calculate benefits which are payable monthly for life. A reduced benefit is provided for early retirement which may be elected upon attainment of age forty-five with fifteen years of creditable service. Surviving parents, spouses, or unmarried children under age eighteen are entitled to benefits for life, or until attainment of age eighteen or remarriage, generally equal to fifty percent of the amount the participant would have received if retired.

There is no vesting requirement for entitlement to the plan's permanent and temporary disability benefits. The benefit amount is greater if the disability arose in the line of duty. The benefit is based upon the participant's monthly salary times the degree of impairment as determined by the disability medical panel, established in accordance with statute.

Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the fund. If an employee leaves covered employment or dies before fifteen years of credited service, accumulated employee contributions plus interest, as credited by the Public Employees' Retirement Fund Board of Trustees, are refunded to the employee, designated beneficiary, or the member's estate. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* The funding policy of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing. The funding policy is defined by state statutes. Member contributions, defined by statute as three percent of the first \$8,500 of annual salary, are remitted to the fund upon each payroll deduction. Contributions required were determined in accordance with IC 5-10.2-2-9 using the entry age normal cost method. Based on the actuarial valuation at July 1, 1996, the total contributions required were \$.73 million normal cost and \$.64 million amortization of the unfunded actuarial accrued liability. Estimated members contributions were \$64,260, leaving \$1.3 million as the required employer contribution. Contributions made by the State of Indiana

for the year ended June 30, 1996 totaled \$1.6 million and member contributions totaled \$66,184. This was 17% and 1% of the covered payroll of \$6.6 million respectively.

The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

*Trend Information.* See table on page 58.

### ***Judges' Retirement System***

*Plan Description.* The Judges' Retirement System is a multiple-employer cost sharing Public Employee Retirement System and a defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund.

The Judges' Retirement System was established in 1953 and is governed by IC 33-13-2. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts; Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 3-13-10.1-1 et seq. applies to judges beginning service after August 31, 1985.

Retirement, permanent disability, and death benefits are provided by the Judges' Retirement Fund. Retirement benefits vest after eight years of creditable service. Judges who retire at or after age sixty-five with eight years of creditable service are entitled to an annual retirement annuity, payable monthly for life, in an amount calculated in accordance with statutes. A reduced amount is paid for early retirement which may be selected upon attainment of age sixty-two. There is no vesting requirement for permanent disability benefits. Surviving spouses or dependent children are entitled to benefits for life or until attainment of age eighteen, if the participant had qualified to receive a retirement or disability annuity or had completed at least ten years of service as a judge.

Member contributions are established by statute at six percent of total statutory compensation which is deducted from the member's salary or paid by the employer, and is remitted by the Auditor of State or County Auditor. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two (22) years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the fund for benefits to the end of the biennium, on an actuarially funded basis.

In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions. The court fee distribution was added as a revenue source by Public Law 305-1987, Section One.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* Funding policy contribution requirements for the Judges' Retirement Fund are not actuarially determined but are established by statute IC 33-13-8-16(a) and appropriated by the Legislature. The actuarial valuation suggested that the minimum contribution for 1995 was 41.2% of anticipated payroll.

Contributions for the year ending June 30, 1996 totaling \$9.7 million (\$8.1 million employer and \$1.6 million employee) were made in accordance with statutory requirements. The contributions made were

27.9% and 5.5% of fiscal year covered payroll, respectively. Also included as a component of employer contributions was \$.7 million of statutory court fee distribution.

The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

*Trend Information.* See table on page 58.

### ***Prosecuting Attorney's Retirement Fund***

*Plan Description.* The Prosecuting Attorney's Retirement System was established in 1989 and governed by IC 33-14-9. The retirement fund is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana.

The Prosecuting Attorney's Retirement Fund provides retirement, disability and survivor benefits. A participant is entitled to a retirement benefit if the participant is at least 65 years of age (62 years for reduced benefits), has ceased service as a prosecuting attorney or chief prosecuting attorney and is not receiving nor entitled to receive any salary from the State for services currently performed.

The amount of the annual retirement benefit for a participant who is at least sixty-five (65) years of age is the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentage range from twenty-five percent (25%) for ten (10) years of service to fifty percent (50%) for twenty (20) or more years of service.

If the participant is sixty-two (62) but not yet sixty-five (65) years of age, the participant is entitled to receive a reduced annual retirement benefit that equals the benefits as calculated above reduced by one-fourth percent (0.25%) for each month that the participant's age at retirement precedes the participant's sixty-fifth birthday. Retirement benefits payable to a participant are reduced by the pension, if any, that would be payable to the participant from the Public Employee's Retirement Fund (PERF) as if the participant had retired from PERF on the date the participant's retirement from the Prosecuting Attorneys' Retirement Fund occurred. Members of this fund are also participating members of PERF with the State making the 3% employee contribution.

The Prosecuting Attorneys' Retirement Fund also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from forty percent (40%) for five (5) years of service to fifty percent (50%) for twenty (20) or more years of service.

The surviving spouse of a participant who dies and on the date of death was receiving benefits from this fund, who had completed at least ten (10) years of service and was serving as a prosecuting attorney or chief deputy prosecuting attorney or met the requirements for disability benefits is entitled to benefits regardless of the participant's age. The surviving spouse is entitled to a benefit for life equal to the greater of seven thousand dollars (\$7,000) or fifty percent (50%) of the retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death, with the reductions as necessary

for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

All benefits payable from the Prosecuting Attorneys' Retirement Fund are reduced by the amounts, if any, that are payable to the participant, surviving spouse, or dependents from the Public Employees' Retirement Fund.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund. For the year ended June 30, 1996, \$173,893 was appropriated and transferred from the state's General Fund as the required employer contribution. This was less than 2.1% of the covered payroll. The participants contribute six percent of salary received for services rendered after December 31, 1989. For the year ended June 30, 1996, employees contributed \$.7 million.

The actuarial assumptions used in this calculation are the same as those used to calculate the pension benefit obligation.

*Trend Information.* See table on page 58.

### ***Legislators' Retirement System***

*Plan Description.* The Legislators' Retirement System was established in 1989 and governed by IC 2-3.5. The retirement system is for the members of the General Assembly of the State of Indiana and is administered by the Board of Trustees of the Public Employees' Retirement Fund.

The Legislators' Retirement System is composed of two separate and distinct plans. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single employer defined benefit PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution PERS applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989.

The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. A participant is entitled to a monthly retirement benefit if the participant is at least 65 years of age (55 years for reduced benefits), or is at least fifty-five (55) years of age and whose years of service as a member of the general assembly plus years of age equal at least eighty-five (85) or is at least sixty (60) years of age and has at least fifteen (15) years of service; has terminated service as a member of the General Assembly; has at least ten (10) years of service as a member of the General Assembly; and is not receiving, nor entitled to receive, compensation from the state for work in any capacity. The monthly retirement benefit is the lesser of 1), forty dollars (\$40) multiplied by the total years of service completed by the participant as a member of the General Assembly before November 8, 1989; or 2), the highest consecutive three-year average annual salary of the participant under IC 2-3-1.1 at the date the participant's service as a member of the General Assembly is terminated divided by twelve (12).

A participant who has reached at least age fifty-five (55) and meets the other requirements stated above is eligible for early retirement with a reduced benefit. The actual reduction is based on the participant's age and ranges from one-tenth of one percent (.1%) to fifty-six percent (56%) of the monthly retirement as calculated above.

The Legislators' Defined Benefit Plan also provides disability and survivor benefits. A member who has a least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death of a participant who was receiving retirement benefits, or had completed at least ten (10) years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to fifty percent (50%) of the amount of retirement benefits that: (1) the participant was receiving at the time of death; or (2) the participant would have been entitled to receive at fifty-five (55) year of age, or at the date of death, whichever is later. If there is no surviving spouse, there are provisions for dependents to receive benefits.

The amount required to actuarially fund participants' retirement benefits as determined by the Board of Trustees on the recommendation of an actuary is to be appropriated from the state's general fund for each biennium.

A participant of the Legislators' Defined Contribution Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions. The amount available for withdrawal is the fair market value of the participants' accounts on the June 30 preceding the date of withdrawal plus employee contributions deducted since the June 30 preceding the date of withdrawal. The withdraw amount can be paid in a lump sum or as an actuarially equivalent monthly annuity as offered by the Board and elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member but prior to withdrawing from the plan, the participant's account is to be paid to the beneficiary(s) or to survivors. The amount to be paid is the fair market value of the participant's accounts (employer and employee contributions) on the June 30 preceding the date of payment, plus employee contributions deducted since the June 30 preceding the date of payment.

Each participant shall make contributions of five percent (5%) of salary received for services after June 30, 1989. Contributions are credited on the June 30 following their deduction. Contributions equal to twenty percent (20%) of the annual salary received by each participant for services after June 30, 1989, are to be made from the biennial appropriation from the State's general fund.

*Funding Status.* See table on page 57.

*Contribution Requirements and Contributions Made.* For the Legislators' Defined Benefit Plan, the amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the state's General Fund. For the year ended June 30, 1997, \$.2 million was appropriated and transferred from the state's general as the required employer contribution.

For the Legislators' Defined Contribution Plan, the State of Indiana is required to contribute twenty percent (20%) of the participant's annual salary. Also, the participant will contribute 5% of his/her annual salary. For the year ended June 30, 1996, \$.86 million was contributed on the participants' behalf. The amount of contribution by the participant on his/her behalf is not reported separately to the fund. Since this is a defined contribution plan, the contribution requirement amount is established by law and not by actuarial evaluation as per IC 2-3.5. Also, there is not an unfunded liability because members receive what was contributed on their behalf.

*Trend Information.* See table on page 58.

## Retirement Plan Schedules

**General Information.** The following table summarizes information by plan (employee counts are actual):

Retirement Plan Information										
PLAN	PERF			STRF	SPRF	PEPF	ECRF	JRS	PARF	LRS
Date of Information	07/01/96			06/30/96	07/01/97	01/01/96	07/01/96	07/01/96	07/01/96	07/01/96
	State	Municipalities	Total							
Employee Data:										
Retirees and beneficiaries currently receiving benefits	N/A	N/A	40,819	30,121	1,144	208	110	192	12	24
Terminated employees entitled to benefits but not yet receiving them	3,599	2,484	6,083	N/A	68	2	0	20	87	17
Active employees	54,968	87,368	142,336	78,866	1,261	7,641	256	328	182	79
Employer Data:										
Covered Payroll	\$1,235,465	\$1,686,075	\$2,921,540	\$2,878,329	\$44,470	\$238,157	\$8,595	\$29,181	\$8,267	N/A
Total Payroll	\$1,235,465	\$1,686,075	\$2,921,540	\$2,878,329	\$44,470	\$238,157	\$8,595	\$29,181	\$8,267	N/A
PERF = Public Employees Retirement Fund STRF = State Teachers Retirement Fund SPRF = State Police Retirement Fund and State Police Benefit Fund PEPF = Pension Plans for Municipal Police Officers and Firefighters ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan JRS = Judges Retirement System PARF = Prosecuting Attorneys Retirement Fund LRS = Legislator's Retirement System (Defined Benefit Plan and Contribution Plan)  N/A = Not Available										

Total payroll amounts are not available for any of the funds; however, substantially all of the State's payroll is covered. Police and fire pension plans' contributions and benefits are based on locally established salary rates rather than their actual payroll.

### Funding Status

The amounts shown in the table below as the "pension benefit obligation" are standard disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The standard measure is intended to help users assess the funding status of the systems on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems.

The pension trust funds included in the state's financial statements include funds that are PERS for state employees, local government employees, and both state and local employees, and a pension trust fund that is a PERS for local employees where the employer contributions are made by the state. The State Police Retirement Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, Judges Retirement Fund, Prosecuting Attorneys' Retirement Fund, Legislators' Retirement Defined Contribution Fund and Legislators' Retirement Defined Benefit Fund are PERS for state employees. The 1977 Police and Firefighters' Pension Fund is a PERS for local employees. The Public Employees' Retirement Fund is a PERS for both state and local employees. The State Teachers' Retirement Fund is a PERS for local employees, but the employer contribution are made by the state.

The pension benefit obligation presented in the table below is divided between the obligation for state employees and the obligation for local employees. The pension benefit obligations were computed as part of actuarial valuations. Significant dates and actuarial assumptions used in the valuations are as follows:

Significant Actuarial Assumptions Used in Determining Pension Benefit Obligations

	PERF	STRF	SPRF	PFPF	ECRF	JRS	PARF	LRS
Date of actuarial evaluation	7/1/96	6/30/96	7/1/97	1/1/96	7/1/96	7/1/96	7/1/96	7/1/96
Actuarial assumptions:								
Return on investments of current and future assets	7.00%	7.50%	7.00%	7.00%	7.50%	6.00%	7.00%	7.00%
Future salary increases	5.00%	N/A	6.00%	5.00%	6.50%	4.00%	5.00%	3.00%
Cost of living increases		5.50%	N/A	3.00%	N/A	N/A	N/A	2.00%
Merit/seniority increases		0 - 5.1%	N/A	N/A	N/A	N/A	N/A	N/A
Post retirement benefit increases	2.00%	--	N/A	N/A	2.00%	4.00%	N/A	N/A

Pension Benefit Obligations

	STATE EMPLOYEES						LOCAL EMPLOYEES			
	PERF	SPRF	ECRF	PARF	LRS	TOTAL	JRS	PERF	STRF	PFPF
Pension Benefit Obligation:										
Retirees/beneficiaries currently receiving benefits	\$ 1,779,023	\$ 112,498	\$ 9,660	\$ 1,323	\$ 1,871		\$ 58,840	\$ --	\$ 2,968,696	\$ 39,039
Terminated employees entitled to but not yet receiving benefits - Vested	41,318	7,367	--	1,985	582		4,252	25,722	97,628	--
Nonvested	--	--	--	1,073	--		--	--	--	--
Current Employees:										
Accumulated employee contributions including allocated investment income	524,490	26,757	2,281				11,439	615,937	2,084,053	117,404
Employer financed - vested	588,942	88,012	8,685	3,378	2,770		49,026	705,797	4,371,485	397
Employer financed - nonvested	514,101	36,609	7,799	800	207		21,944	589,567	241,775	355,045
Total Pension Benefit Obligation	3,447,874	271,243	28,425	8,559	5,430	\$ 3,761,531	145,501	1,937,023	9,763,639	511,885
Net assets available for benefits, at cost	3,696,825	240,880	24,079	4,874	3,548	3,970,206	56,759	2,332,760	3,262,619	785,123
Assets in excess of pension benefit obligation	248,951	--	--	--	--	248,951	--	295,737	--	273,238
Unfunded pension benefit obligation	\$ --	\$ 30,363	\$ 4,346	\$ 3,685	\$ 1,882	\$ 40,276	\$ 88,742	\$ --	\$ 6,501,020	--
Net assets available for benefits, at market	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A

PERF = Public Employees Retirement Fund  
 STRF = State Teachers Retirement Fund  
 SPRF = State Police Retirement Fund and State Police Benefit Fund  
 PFPF = Pension Plans for Municipal Police Officers and Firefighters  
 ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan  
 JRS = Judges Retirement System  
 PARF = Prosecuting Attorneys Retirement Fund  
 LRS = Legislator's Retirement System (Defined Benefit Plan and Contribution Plan)  
 N/A = Not Available

## Historical Trend Information.

### Three-Year Information

The following table provides analysis of funding progress for the pension funds for the last three years.

Three-Year Historical Trend Information								
	PERF	STRF	SPRF	PPPF	ECRF	JRS	PARF	LRS
Net Assets available for benefits (at cost) expressed as a percentage of pension benefit obligation								
1997	N/A	N/A	88.8%	N/A	N/A	N/A	N/A	N/A
1996	107.0%	33.4%	88.0%	153.4%	85.0%	39.0%	56.9%	65.3%
1995	106.0%	32.7%	90.8%	156.2%	89.1%	36.2%	N/A	60.0%
Unfunded pension benefit obligation expressed as a percentage of total covered payroll								
1997	N/A	N/A	68.3%	N/A	N/A	N/A	N/A	N/A
1996	-20.1%	225.9%	70.0%	-114.7%	51.0%	N/A	N/A	N/A
1995	-16.2%	255.0%	58.4%	-115.9%	40.2%	324.6%	N/A	N/A
Employer contributions expressed as percentages of annual covered payroll								
1997	N/A	N/A	21.0%	N/A	N/A	N/A	N/A	N/A
1996	15.0%	N/A	22.9%	20.5%	18.2%	N/A	N/A	N/A
1995	15.6%	8.8%	15.7%	23.2%	18.2%	19.6%	N/A	N/A
PERF = Public Employees Retirement Fund STRF = State Teachers Retirement Fund SPRF = State Police Retirement Fund and State Police Benefit Fund PPPF = Pension Plans for Municipal Police Officers and Firefighters ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan JRS = Judges Retirement System PARF = Prosecuting Attorneys Retirement Fund LRS = Legislator's Retirement System (Defined Benefit Plan and Contribution Plan)  N/A = Not Available								

Net assets available for benefits, expressed as a percentage of the pension benefit obligation as applied to the entity's employees indicates the relative strength of the retirement system over a period of time. Generally, the greater the percentage, the stronger the system.

Unfunded pension benefit obligation and employer contributions, both expressed as a percentage of the annual covered payroll, approximately adjusts for the effects of inflation and aids analysis of progress made by the various pension funds in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

## Discretely Presented Component Units

### *Colleges and Universities*

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana's discretely presented college and universities contributed \$102.5 million for 15,365 participants for the year ended June 30, 1997.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 1997 for 15,632 employees totaled \$36.6 million. The universities have no future unfunded liability for these above programs. The small number of employees not covered by the above plans are covered by various other plans provided them through their respective university. Separate financial reports of each institution are available and should be referred to for detailed information.

### Supplemental Information

#### Ten-Year Information

Historical trend information is utilized to determine if the retirement fund is accumulating sufficient assets to pay benefits when due. The historical trend information for PERF, STRF, SPRF, PFRF, ECRF, JRS, PARF, LRS, is reported in the separately issued financial reports of each retirement fund. Trend information for the past nine years is presented in the following schedule; prior information is unavailable.

**State of Indiana**  
**Required Supplementary Information**  
**Analysis of Funding Progress for Retirement Systems**  
(amounts expressed in thousands)

Retirement System	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit as a Percentage of Covered Payroll
<b>Public Employees Retirement Fund (PERF)</b> (State Portion Only)						
1997	\$6,435,115	N/A	N/A	N/A	N/A	N/A
1996	3,896,825	3,447,875	107%	-	1,235,465	N/A
1995	3,415,020	3,220,286	106	-	1,205,283	N/A
1994	3,067,205	2,639,627	116	-	1,176,139	N/A
1993	2,821,716	2,496,165	113	-	781,480	N/A
1992	2,568,240	2,351,119	109	-	N/A	N/A
1991	2,286,114	2,171,064	105	-	N/A	N/A
1990	2,039,697	2,019,371	101	-	N/A	N/A
1989	1,804,935	1,849,549	98	\$44,614	N/A	N/A
<b>State Teachers Retirement Fund (STRF)</b>						
1997	\$3,757,538	N/A	N/A	N/A	N/A	N/A
1996	3,262,619	9,783,639	33%	6,501,020	2,878,329	226%
1995	2,983,579	9,129,491	33	6,145,912	2,728,811	255
1994	2,808,650	8,548,127	33	5,739,477	2,614,915	219
1993	2,592,320	7,986,760	32	5,394,440	2,536,165	213
1992	2,376,325	7,443,932	32	5,067,607	2,374,214	213
1991	2,161,000	6,713,000	32	4,552,000	2,279,000	200
1990	N/A	N/A	N/A	N/A	2,156,300	0
1989	1,707,000	5,751,000	30	4,044,000	2,045,000	198
<b>State Police Retirement Fund (SPRF)</b>						
1997	\$240,880	\$271,243	89%	\$30,363	\$44,470	68%
1996	229,113	259,676	88	30,564	43,689	70
1995	215,820	237,620	91	21,800	37,359	58
1994	207,566	216,660	96	9,094	33,208	27
1993	202,466	209,832	96	7,366	31,996	23
1992	197,059	200,804	98	3,745	32,721	11
1991	188,278	192,245	98	3,967	31,953	12
1990	173,633	175,721	99	2,088	32,182	6
1989	158,690	164,033	97	5,343	31,259	17
<b>1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) State Portion Only</b>						
1997	\$960,799	N/A	N/A	N/A	N/A	N/A
1996	785,123	511,885	153%	-	238,157	-
1995	670,084	429,052	156	-	207,987	-
1994	580,148	369,027	157	-	194,216	-
1993	480,248	310,620	155	-	180,140	-
1992	391,865	252,241	155	-	162,622	-
1991	N/A	N/A	N/A	N/A	N/A	N/A
1990	N/A	N/A	N/A	N/A	N/A	N/A
1989	N/A	N/A	N/A	N/A	N/A	N/A
<b>Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRF)</b>						
1997	\$26,324	N/A	N/A	N/A	N/A	N/A
1996	24,079	28,425	85%	4,346	8,595	51%
1995	21,699	24,360	89	2,661	6,627	40
1994	20,359	24,119	84	3,760	7,108	53
1993	18,214	22,854	80	4,640	7,085	66
1992	16,032	21,794	74	5,762	6,806	85
1991	14,282	17,839	80	3,557	6,783	52
1990	12,668	21,377	98	8,709	5,856	148
1989	11,239	19,712	57	8,473	5,977	141
<b>Judges' Retirement System (JRF)</b>						
1997	\$69,357	N/A	N/A	N/A	N/A	N/A
1996	56,759	145,501	39%	88,742	29,181	304%
1995	48,884	135,224	36	86,340	26,500	325
1994	44,132	103,197	42	59,066	19,781	299
1993	38,401	100,941	38	62,540	18,959	330
1992	34,115	94,083	36	59,968	19,025	315
1991	29,767	95,098	31	65,331	19,025	343
1990	26,043	91,292	29	65,249	18,282	357
1989	22,073	85,020	26	62,947	17,038	369
<b>Prosecuting Attorney's Retirement Fund (PARF)</b>						
1997	\$5,970	N/A	N/A	N/A	N/A	N/A
1996	4,874	8,559	57%	3,685	11,169	33%
1995	N/A	N/A	N/A	N/A	N/A	N/A
1994	N/A	N/A	N/A	N/A	N/A	N/A
1993	2,821	4,593	61	1,772	8,267	2
1992	1,945	2,500	77	555	8,182	7
1991	N/A	N/A	N/A	N/A	N/A	N/A
1990	N/A	N/A	N/A	N/A	N/A	N/A
1989	N/A	N/A	N/A	N/A	N/A	N/A
<b>Legislators' Retirement System (LRS)</b>						
1997	\$3,834	N/A	N/A	N/A	N/A	N/A
1996	3,548	5,430	65%	1,882	N/A	N/A
1995	3,213	5,387	60	2,174	N/A	N/A
1994	3,023	5,221	58	2,198	7,489	29%
1993	2,649	5,042	53	2,393	3,467	69
1992	1,942	5,067	38	3,125	5,792	54
1991	N/A	N/A	N/A	N/A	N/A	N/A
1990	N/A	N/A	N/A	N/A	N/A	N/A
1989	N/A	N/A	N/A	N/A	N/A	N/A

The net assets available for benefits expressed as a percentage of pension benefit obligation gives an indication of the funding status of a fund. Generally, a higher percentage represents a stronger fund.

The unfunded pension benefit obligation expressed as a percentage of annual covered payroll adjusts for the effects of inflation. It aids in the analysis to see if progress is made in accumulated sufficient assets to pay benefits. Generally, a lower percentage represents a stronger fund.

Net Assets are valued on a cost basis.

N/A - Not Available

Ten years of data is not available at this time.

**State of Indiana**  
**Required Supplementary Information**  
**Revenues and Expenses for Retirement Systems**  
(amounts expressed in thousands)

Retirement System	Revenues By Source						Expenses By Type			
	Member Contributions	Employer Contributions	Employer Contributions As % of Payroll	Investment Income	Other Income	Total	Benefits	Refunds	Other	Total
<b>Public Employees Retirement Fund (PERF)</b>										
1997	\$96,751	\$187,761	N/A	\$486,871	\$1,127	\$772,510	\$214,532	\$33,635	\$3,917	\$252,084
1996	90,516	185,911	15.0	415,407	—	691,834	200,748	29,197	6,119	236,064
1995	89,256	187,537	15.8	338,479	1,569	616,841	186,217	27,700	6,954	220,871
1994	83,599	184,047	15.6	392,999	2,310	682,955	163,864	24,797	7,083	195,764
1993	81,977	189,237	24.2	424,093	815	696,122	157,794	19,849	5,299	182,942
1992	78,812	187,318	N/A	403,760	779	670,469	144,269	21,099	4,217	169,585
1991	74,614	174,319	N/A	317,311	524	566,768	130,014	20,408	4,286	154,708
1990	69,691	175,442	N/A	273,585	710	519,428	120,115	24,315	4,268	148,698
1989	66,273	164,668	N/A	217,400	427	448,768	109,229	22,136	4,237	135,602
<b>State Teachers Retirement Fund (STRF)</b>										
1997	\$87,531	\$508,962	N/A	\$276,507	\$789	\$873,789	\$413,320	—	\$2,362	\$415,682
1996	83,188	284,320	N/A	222,000	722	590,229	380,633	5,673	9,468	395,774
1995	82,371	239,177	8.8	218,942	793	541,283	343,228	5,791	17,263	366,282
1994	79,190	230,795	8.8	253,321	726	564,032	306,144	7,408	34,224	347,776
1993	75,521	204,081	8.0	251,920	776	532,298	282,501	379	33,423	316,303
1992	71,174	206,626	8.7	226,623	2,135	506,558	278,444	89	12,346	290,879
1991	69,779	241,400	10.6	208,804	1,896	521,879	243,506	90	29,156	272,752
1990	64,689	201,260	9.3	175,248	833	442,030	213,562	4,532	19,302	237,396
1989	61,532	162,431	7.9	150,854	908	375,725	193,172	4,287	14,867	212,326
<b>State Police Retirement Fund (SPRF)</b>										
1997	\$2,613	\$9,383	21.0%	\$12,959	\$22	\$24,977	\$12,548	—	\$88	\$12,636
1996	2,557	10,009	22.9	12,698	—	25,265	11,904	6	62	11,972
1995	2,014	5,847	15.7	10,608	494	18,963	10,609	14	67	10,690
1994	1,858	5,762	17.4	7,184	323	15,127	9,922	—	81	10,003
1993	1,915	5,775	18.0	7,176	—	14,866	9,344	73	63	9,480
1992	1,937	5,686	17.4	10,042	—	17,665	8,667	32	89	8,788
1991	1,918	7,563	23.7	13,178	\$253	22,910	8,122	54	99	8,275
1990	1,770	7,201	22.4	13,432	216	22,619	7,760	28	42	7,831
1989	1,688	7,313	23.4	11,668	150	20,819	6,494	6	48	6,548
<b>1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) State Portion Only</b>										
1997	\$15,851	\$55,240	N/A	\$59,840	—	\$130,931	\$2,758	\$1,942	\$343	\$5,043
1996	14,058	48,937	20.5	57,027	—	120,022	2,279	1,521	502	4,302
1995	14,138	48,224	23.2	41,404	—	103,766	1,833	1,677	447	3,957
1994	10,882	37,125	19.1	51,881	—	99,688	1,456	1,184	361	3,001
1993	11,425	39,352	21.6	47,639	—	98,416	1,250	559	416	2,225
1992	7,493	33,677	20.7	39,939	—	81,109	954	820	423	2,197
1991	8,542	29,424	N/A	27,471	—	65,437	724	1,126	267	2,117
1990	7,401	25,382	N/A	22,451	—	55,234	570	1,052	410	2,032
1989	29,359	—	N/A	17,242	—	46,601	528	997	217	1,742
<b>Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRF)</b>										
1997	\$86	\$1,613	N/A	\$1,688	—	\$3,367	\$998	\$9	\$54	\$1,061
1996	86	1,562	18.2%	1,830	—	3,458	990	21	66	1,077
1995	83	1,208	18.2	1,075	—	2,346	952	3	52	1,007
1994	84	1,230	17.3	1,821	—	3,115	903	5	62	970
1993	85	1,216	17.2	1,879	—	3,160	875	12	63	950
1992	84	786	11.5	1,732	—	2,582	794	5	49	848
1991	64	1,143	16.9	1,232	—	2,439	770	11	45	826
1990	82	1,073	18.2	1,013	\$772	2,920	717	6	57	780
1989	722	—	N/A	798	—	1,520	679	9	58	746
<b>Judges Retirement System (JRF)</b>										
1997	\$1,605	\$12,878	N/A	\$4,163	—	\$18,646	\$5,897	\$38	\$58	\$5,993
1996	1,603	8,143	N/A	3,687	5	13,438	5,484	—	79	5,563
1995	1,068	5,224	19.6%	2,733	—	9,025	4,204	10	60	4,273
1994	1,051	4,928	24.9	4,069	—	10,047	4,183	68	65	4,316
1993	1,026	3,710	19.6	3,795	—	8,531	4,131	38	78	4,245
1992	1,049	4,067	21.4	2,599	\$953	8,668	4,146	—	172	4,318
1991	979	4,371	23.0	2,426	—	7,776	3,795	47	209	4,051
1990	1,054	4,296	23.5	2,015	—	7,365	3,538	67	66	3,671
1989	885	3,895	22.9	1,788	—	6,568	3,343	53	52	3,448
<b>Prosecuting Attorney's Retirement Fund (PARF)</b>										
1997	\$759	\$174	N/A	\$357	—	\$1,290	\$134	\$22	\$33	\$189
1996	747	174	N/A	366	—	1,286	104	133	28	264
1995	445	25	N/A	163	—	633	45	116	20	181
1994	471	25	N/A	233	—	729	42	21	21	84
1993	462	256	N/A	229	—	947	19	28	27	74
1992	481	256	3.1%	128	—	865	10	15	16	41
1991	418	257	N/A	53	—	728	3	27	—	30
1990	134	257	N/A	13	—	404	—	—	3	3
1989	N/A	N/A	N/A	N/A	N/A	—	N/A	N/A	N/A	—
<b>Legislators' Retirement System (LRS)</b>										
1997	—	\$199	N/A	\$251	—	\$450	\$146	—	\$26	\$172
1996	—	198	N/A	294	—	493	131	—	27	158
1995	—	267	N/A	148	—	413	110	—	114	224
1994	—	267	3.8%	232	—	499	102	—	23	125
1993	—	611	17.6	157	47	815	74	—	34	108
1992	—	812	10.6	102	22	736	48	—	23	71
1991	—	812	N/A	72	—	684	26	—	1	27
1990	\$198	812	N/A	37	—	847	—	—	24	24
1989	N/A	N/A	N/A	N/A	N/A	—	N/A	N/A	N/A	—

Contributions were made in accordance with actuarially determined contribution requirements.

N/A - Not Available

Ten year trend data is not available at this time.

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**SUMMARY OF CERTAIN PROVISIONS OF  
USE AND OCCUPANCY AGREEMENTS AND INDENTURE**

The following is a brief summary of certain provisions of the Use and Occupancy Agreements. This summary does not purport to be a comprehensive description and is qualified in its entirety by reference to the Use and Occupancy Agreements. While Additional Use and Occupancy Agreements are required by the Indenture to contain certain of the provisions summarized herein, other provisions of Additional Use and Occupancy Agreements may differ from those summarized herein. In addition, the terms of the existing Use and Occupancy Agreements may be amended from time to time in any respect not inconsistent with the provisions required in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Under each Use and Occupancy Agreement, the Commission has covenanted to construct and equip the Facility subject thereto and the Department of Administration has made certain undertakings (other than any obligation to make rental payments thereunder) as of the execution date. The Department of Administration's obligation to make rental payments for the Facility subject thereto (or any phase thereof) and the term of such Use and Occupancy Agreement will commence from and after the date of the Department of Administration's acceptance of a completion certificate for such Facility (or such portion thereof), in accordance with such Use and Occupancy Agreement, and will extend through 12:01 a.m. on July 1, 1999. The Department of Administration has the right to renew each Use and Occupancy Agreement for successive two-year periods thereafter, and the term of each Use and Occupancy Agreement will be deemed to have been renewed for each such two-year period unless the Department of Administration delivers a termination notice during a specified period prior to the end of any two-year term. In the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of any Facility when due, such Facility must be vacated and the Commission may take whatever action at law or in equity that may appear necessary or desirable to enforce its rights under the Use and Occupancy Agreement for such Facility.

The Department of Administration is required by each Use and Occupancy Agreement to pay monthly rentals for the Facility subject thereto (or any phase thereof) to the Commission on or before the tenth day of each month succeeding those months during which such Facility (or such phase thereof) is available for use and occupancy. Under the Act, required rental payments may not be unjust and unreasonable considering the value of the services and facilities thereby afforded. In determining "just and reasonable" amounts to be paid for the use and occupancy of a facility, the Act specifically requires the Commission to impose and collect amounts that, in the aggregate, will be sufficient to (a) pay the expenses of operation, maintenance and repair of the facility, to the extent that such expenses are not otherwise provided, and (b) leave a balance of revenues from the facility to pay the principal and interest (including any reserve or sinking funds) on bonds or loans as they become due and retire such obligations at or before maturity. Rental payments under each Use and

Occupancy Agreement are required to be sufficient to provide for the payment of all expenses to be paid by the Commission in administering the Facility subject thereto (or any phase thereof) and in complying with the covenants of the Indenture, and all of the cost of insurance to be incurred as an expense of the Commission for such Facility (or any phase thereof); to provide for the payment of Debt Service (as defined herein) on all Bonds allocable to such Facility (or any phase thereof); to provide for required deposits to the Debt Service Reserve Fund under the Indenture; and, to the extent authorized or permitted by law, to provide for costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility (or any phase thereof). In the event that such Facility (or any phase thereof) is damaged or destroyed so as to be rendered unfit for use and occupancy, rental payments will be appropriately abated and, so long as the Commission has complied with its obligation under the Use and Occupancy Agreement to obtain and maintain insurance on such Facility and the rental value thereof, the resulting rental deficiency will be satisfied, for at least twelve months, out of the proceeds from such insurance paid to and received by the Trustee for the period during which such Facility (or such phase thereof) is unfit for use and occupancy. Under each Use and Occupancy Agreement, the Department of Administration will be required to pay for all expenses of operation, maintenance and repair of the Facility subject thereto, other than expenses of the Commission in administering and maintaining insurance on such Facility. However, to the extent that funds are available in the Replacement Reserve Fund under the Indenture, the Commission is required to pay the costs of all major, non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility to maintain such Facility in good repair, working order and condition. Nothing in the Use and Occupancy Agreements requires the Commission to charge, or the Department of Administration to pay, rental payments in an amount which exceeds the amounts properly allocable to such Facility (or a phase thereof) as a just and reasonable lease rental considering the value of the services and the Facility (or any phase thereof) thereby afforded.

Each Use and Occupancy Agreement requires the Commission to keep or cause the Facility subject thereto to be insured against loss or damage by fire and other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of all Bonds allocable to such Facility then outstanding under the Indenture or (b) 100% of the full replacement cost of such Facility (subject to reasonable loss-deductible provisions). The Commission is also required to maintain in effect business interruption insurance against loss of rental income for a period of at least twelve months due to the damage or destruction and interruption of the use of all or a part of such Facility for periods insured against under a standard extended coverage endorsement. In addition, the Commission is required to use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to person and property as are customary to be insured or reserved against for properties similar to such Facility.

The Commission agrees to use its best efforts to complete each Facility (and each phase thereof) as promptly as practicable in accordance with the plans and specifications. In the event the moneys in the Project Account and the Interest Account of the related Construction Fund (as defined in the Indenture) are not sufficient to pay in full the cost of completing the Acquisition of the Facility

(or any phase thereof) and the interest on the allocable Bonds prior to the Commencement Date, the Commission agrees to use its best efforts to complete the Acquisition of the Facility (and each phase thereof), including but not limited to seeking the issuance of a Credit Note or Additional Bonds in an amount sufficient to pay the remaining Acquisition Costs, interest prior to completion, associated costs of issuance and required reserves.

Under each Use and Occupancy Agreement, the Department of Administration has an option to purchase the Facility subject thereto at a price equal to the amount required to provide for the payment or redemption of all outstanding Bonds allocable to such Facility, including all premiums payable on the redemption thereof and accrued and unpaid interest thereon, all in accordance with the Indenture, and to pay all expenses of the Commission attributable to such Facility.

The Department of Administration may not assign any interest in or any right under any Use and Occupancy Agreement. The Department of Administration is required to cause the Department of Correction to assign and allocate space in the Facility subject thereto. Further, the Department of Administration may, pursuant to a form of sublease agreement previously approved in writing by the Commission, sublet all or part of the Facility subject thereto to the Department of Correction or any other State agency. Without (a) the prior written consent of the Commission and (b) an opinion of nationally recognized bond counsel to the effect that a sublease of all or a portion of such Facility to, or use of all or a portion of such Facility by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any tax-exempt Bonds under the Internal Revenue Code of 1986, as amended (the "Code"), the Department of Administration will not be permitted to sublet all or any portion of such Facility to any such person, except for a sublease to the Department of Correction or any other State agency. The Commission may enter into an agreement with the Department of Administration, the Department of Correction or any State agency to manage the Facility subject thereto, but may not enter into a management agreement with any other person (natural or otherwise) unless in the opinion of nationally recognized bond counsel such agreement will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any tax-exempt Bonds under the Code.

Under each Use and Occupancy Agreement, the Department of Administration covenants not to take any action or fail to take any action with respect to the use of the Facility subject thereto that would result in loss of the exclusion from gross income pursuant to the Code of interest paid on any tax-exempt Bonds. The Department of Administration also covenants under each Use and Occupancy Agreement to use its best efforts to obtain appropriations from the General Assembly to meet its rental payment obligations and its operation, maintenance and repair obligations, both under such Use and Occupancy Agreement and under all other Use and Occupancy Agreements. The Department of Administration further covenants under each Use and Occupancy Agreement that it will not purchase, lease or rent any facility to perform the same functions as the Facility subject thereto for a two-year period following a termination of such Use and Occupancy Agreement by reason of non-appropriation or unavailability of lease rentals.

Under each Use and Occupancy Agreement, if the Department of Administration (a) fails to pay any rent when due under such Use and Occupancy Agreement or (b) fails to observe any covenant under such Use and Occupancy Agreement for a period of thirty days following written notice of such violation, the Commission may terminate such Use and Occupancy Agreement and/or take whatever action at law or in equity may appear necessary or desirable to enforce its rights under such Use and Occupancy Agreement. However, in the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of any Facility (or any phase thereof), such Facility (or any phase thereof) must be vacated. Notwithstanding anything in the preceding sentence to the contrary, the Department of Administration will be obligated, under each Use and Occupancy Agreement, to make any rental payment due under such Use and Occupancy Agreement for any period (i) during which the Facility (or any phase thereof) is available for use and occupancy and (ii) for which funds have been appropriated by the General Assembly and are available to pay when due any sum agreed to be paid for use and occupancy of such Facility. If the terms and conditions of any Use and Occupancy Agreement and the amounts to be paid thereunder for use and occupancy of the Facility subject thereto are shown to be unjust and unreasonable in light of the factors set forth in the Act, (A) the Commission and the Department of Administration will if authorized or permitted by law, be required to reduce such amounts so as not to be unjust and unreasonable, or (B) if such reduction is not authorized or permitted by law, the Department of Administration will not be obligated to continue to pay such amounts and will instead be required to vacate such Facility.

The Use and Occupancy Agreements contain no "cross-default" provisions. Therefore, an event of default under Use and Occupancy Agreement No. 1 will not constitute an event of default under Use and Occupancy Agreement No. 2, and vice versa. Likewise, an event of default under any Additional Use and Occupancy Agreement will not constitute an event of default under Use and Occupancy Agreement No. 1 or Use and Occupancy Agreement No. 2.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following is a summary of certain provisions contained in the Indenture. This summary does not purport to be a comprehensive description and is qualified in its entirety by reference to the Indenture. Certain capitalized terms used under this caption are defined in Appendix C, "DEFINITIONS."

### **Creation of Funds and Accounts**

The Indenture establishes the following Funds, Accounts and Subaccounts to be held by the Trustee with respect to Facility No. 1:

1. the Construction Fund for Facility No. 1 including:
  - (a) the Interest Account,

- (b) the Expense Account, including a Series 1998 Subaccount,
  - (c) the Credit Repayment Account,
  - (d) the Project Account, and
  - (e) the Clearing Account;
2. the Revenue Fund for Facility No. 1;
  3. the Operation and Maintenance Fund for Facility No. 1;
  4. the Debt Service Fund for Facility No. 1, including a Series 1998 Account, Series 1995A Account and an Earnings Account;
  5. the Debt Service Reserve Fund for Facility No. 1;
  6. the Replacement Reserve Fund for Facility No. 1; and
  7. the Rebate Fund for Facility No. 1.

Similar Funds and Accounts are established under the Indenture for each Facility. In addition, a General Fund is created for the benefit of all Series of Bonds without regard to a particular Facility.

#### **Deposit of Net Bond Proceeds, Revenues and Other Receipts**

The Trustee will deposit the net proceeds from the sale of the 1998 Bonds to the following Funds, Accounts and Subaccounts:

- (a) \$587,673.15, which is accrued interest on the 1998 Bonds, to the Debt Service Fund for Facility No. 1--Series 1998 Account, for the purpose of paying accrued interest on the 1998 Bonds due and payable on July 1, 1998;
- (b) \$315,244.37 to the Construction Fund for Facility No. 1--Expense Account--Series 1998 Subaccount, for the purpose of paying the costs of refunding the 1991 Bonds and issuing the 1998 Bonds; and
- (c) \$94,062,912 to the account established under the Escrow Agreement dated as of January 1, 1998, by and between the Commission and the Bond Escrow Trustee, for the purpose of refunding the 1991 Bonds.

The Trustee will deposit all Gross Revenues related to a particular Facility under the Indenture promptly upon receipt into the related Revenue Fund under the Indenture and will thereupon transfer amounts therein to the following related funds in the following order of priority.

(a) To the Operation and Maintenance Fund, such amounts, if any, estimated by the Commission pursuant to the Indenture to be required, after consideration of amounts available in such Fund, to provide for the payment of expenses of operation, maintenance and repair of a Facility required to be paid by the Commission, under the Use and Occupancy Agreements or otherwise (including expenses of managing and administering such Facility and in complying with the covenants of the Indenture), through the end of the month beginning on the first day of the month following the month in which the transfer was made;

(b) To the Debt Service Fund, such amount, if any, required to bring the balance in such Fund to a level equal to the Accrued Debt Service that will accrue through the end of the first day of the month following the month in which the transfer was made;

(c) To the Rebate Fund, the amount, if any, required to be deposited therein in accordance with the related Rebate Memoranda;

(d) To the Debt Service Reserve Fund, such amount, if any, required, after giving effect to any insurance policy, surety bond or irrevocable letter of credit or similar obligation meeting the requirements of the Indenture (a "Reserve Fund Credit Facility") deposited in such Fund under the Indenture, to bring the balance in such Fund to a level sufficient to satisfy the related Debt Service Reserve Requirement, including any obligation of the Commission to reimburse the provider of any Credit Facility or Reserve Fund Credit Facility for any payment made by such provider under such Reserve Fund Credit Facility pursuant to, or any other obligation of the Commission to repay amounts (including fees or additional interest) to such provider pursuant to, a reimbursement agreement between the Commission and such provider (such an obligation of the Commission, a "Reimbursement Obligation") for any Reserve Fund Credit Facility;

(e) To the Replacement Reserve Fund, an amount equal to  $1/72$  of the amount, after considering the amount on deposit in such Fund on the first day of the then-current Fiscal Year, as the Commission has annually estimated to be required under the Indenture to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility to be paid through the end of the sixth Fiscal Year following the end of the then-current Fiscal Year; and

(f) To the General Fund, such amounts, if any, remaining in the Revenue Fund after making all of the required transfers thereunder.

## **Construction Fund**

In accordance with the Indenture, amounts held in the various accounts of the Construction Fund for each facility will be disbursed by the Trustee as herein described.

From the related Project Account and Expense Account, the Trustee will pay the amounts required to finance the Acquisition Costs (as hereinafter defined) of the related Facility, including costs relating to the issuance of the Bonds issued to finance such Facility. To request any payment for any of such purposes, the Commission must file a requisition with the Trustee, signed by an authorized officer of the Commission and stating the name and address of the person, firm, corporation or other entity to whom payment is due (which may be the Commission), the amount to be paid and the particular item of the cost to be paid. The requisition must also state that the cost of the obligation in the stated amount is a proper charge against the Project Account or the Expense Account which has not been previously paid.

The Indenture provides that, upon the receipt by the Trustee of a certificate of an authorized officer of the Commission, stating the date of substantial completion of Acquisition of a Facility (or a phase thereof) and the amount if any, required in the opinion of such officer to be paid for any remaining Acquisition Costs of such Facility, and that such Facility (or such phase thereof) has been substantially completed in accordance with the applicable plans and specifications, the balance in the Project Account and the Interest Account in excess of such amount, if any, stated in such certificate will be deposited in the related Clearing Account.

In addition, the Indenture provides that, for any Facility, upon the filing of a certificate of a registered engineer experienced in prison construction matters, which is based on the then current status of construction of such Facility and on examination of the contracts providing for the construction of such Facility, setting forth the amount necessary to complete the Acquisition of such Facility, including any reasonable or necessary contingencies, which certificate is approved by an authorized officer of the Commission, the balance of the Project Account for such Facility in excess of the amount, if any, stated in such certificate will be deposited in the related Clearing Account. In the event such a certificate of estimated completion cost is delivered to the Trustee, the Commission will cause such certificate to be recertified within sixty days prior to each six month anniversary of the date of the initial certificate was delivered to the Trustee, revising the amount necessary to complete the Facility described therein, if necessary. If the amount recertified in any such certificate of estimated completion cost results in an increase in the amount stated in the initial certificate, then, to the extent available moneys are at any time thereafter held in the Clearing Account, the Commission will direct the Trustee to transfer such available moneys to the Project Account for the Facility described therein to provide for the completion of such Facility.

The Trustee shall transfer amounts from the Clearing Account for a Facility to the Fund or Account specified in the written instructions of an authorized officer of the Commission. Instructions for a transfer of amounts to a Fund or Account not related to such Facility shall include a certification that no deficiency exists in the Funds or Accounts related to such Facility and that

such transfer does not effect the validity of the Bonds related to such Facility or the status of interest on any Tax-Exempt Bonds related to such Facility.

From the related Interest Account, the Trustee shall transfer amounts to the Paying Agent on or before the business day preceding each Interest Payment Date the amount required for payments of interest on the Bonds for the related Facility up to and including the Projected Commencement Date for such Facility (or the respective Projected Commencement Date for Acquisition of phases of such Facility). At the direction of the Commission, the Trustee will transfer from the Interest Account to the related Clearing Account any amounts remaining in such Interest Account after the Commencement Date for such Facility. To the extent funds in the related Interest Account are not sufficient to pay the interest on the related Bonds prior to the Commencement Date of such Facility (or a phase thereof), an Authorized Officer of the Commission shall direct the Trustee to pay such interest from such Facility's account of the Construction Fund specified in writing by an authorized officer of the Commission.

The Trustee shall transfer amounts from the related Credit Repayment Account at the direction of the Commission to repay that portion of borrowing under the Credit Note or under any other comparable obligation authorized under the Indenture and allocable to the Acquisition Costs of the related Facility. On or before the payment of funds from the Credit Repayment Account, the Commission will deliver the following documents to the Trustee: (i) written instructions executed by an authorized officer of the Commission stating the payee, the amounts to be paid and the time and manner in which payment is to occur; (ii) if the Credit Note or such other obligation will be paid in full after such payment the Credit Note or such obligation; and (iii) if only a portion of the outstanding principal of and accrued interest on the Credit Note or such obligation will be paid by such payment, a written statement stating (A) prior to the receipt of the proposed payment the amount of the outstanding principal of and accrued interest on the Credit Note or such obligation on the proposed payment date and (B) after the receipt of the proposed payment the amount of the outstanding principal of and accrued interest on the Credit Note or such obligation on the proposed payment date. At the direction of the Commission, the Trustee will transfer from the Credit Repayment Account to the related Clearing Account any amounts remaining in the Credit Repayment Account after that portion of the borrowing under the Credit Note or such obligation allocable to the Acquisition Costs of a particular Facility has been paid in full.

### **Operation and Maintenance Fund**

Upon delivery to the Trustee of written instructions executed by an authorized officer of the Commission, amounts in the Operation and Maintenance Fund related to a particular Facility will be applied by or on behalf of the Commission to the payment of expenses of operation, maintenance and repair of the Facility to the extent required to be paid by the Commission pursuant to its obligations under the related Use and Occupancy Agreement or otherwise including expenses of managing and administering the Facility and in complying with the covenants of the Indenture. Any amounts held in the Operation and Maintenance Fund are not available to be pledged or used for any other purpose, including payment of debt service on the Bonds.

## **Debt Service Fund**

The Indenture requires that out of the Debt Service Fund related to a particular Facility, the Trustee will disburse to the Paying Agent for the related Bonds (a) on or before the business day preceding each Interest Payment Date for any of the Bonds, the amount of interest payable on such date; (b) on or before the business day preceding each Principal Installment due date, the amount of the Principal Installment payable on such due date; and (c) on or before any redemption date for the related Bonds, the amount required for the payment of the redemption price, plus accrued interest to the redemption date. Such amounts will, in turn, be applied by such Paying Agent on and after the due dates thereof to pay principal and interest on such Bonds. The Trustee will also pay out of the Debt Service Fund the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Fund related to a particular Facility for a sinking fund installment for the related Bonds (together with amounts accumulated therein with respect to interest on such Bonds for which such sinking fund installment was established) may, and if so directed by the Commission shall be applied by the Trustee, on or prior to the fortieth day preceding the due date of such sinking fund installment to (a) the purchase of Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established or (b) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms. Purchases of Bonds must be made by the Trustee, at the direction of the Commission, at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest. The applicable sinking fund redemption price (or principal amount of maturing Bonds), plus accrued interest, of any Bonds so purchased or redeemed will be deemed to constitute part of the Debt Service Fund until such sinking fund installment date, for the purpose of calculating the amount of such Fund. As soon as practicable after the 40th day preceding the due date of any such sinking fund installment, the Trustee will proceed to call for redemption on such due date Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established (except in the case of Bonds maturing on a sinking fund installment date), in such amount as may be necessary to complete the retirement of the unsatisfied balance of such sinking fund installment after making allowances for any Bonds purchased or redeemed (other than pursuant to a mandatory sinking fund redemption applicable to such Bonds) which the Commission has directed the Trustee to apply as a credit against such sinking fund installment as provided in the Indenture. Out of the related Debt Service Fund, the Trustee will pay to the Paying Agent on or before such redemption date (or maturity date), the amount required for the redemption of such Bonds so called for redemption (or for the payment of Bonds then maturing), and such amount will be applied by the Paying Agent to such redemption (or payment).

The Indenture provides that in the event that the Bonds are to be refunded and in accordance with the directions of the Commission and the requirements of the Indenture, the Trustee will withdraw from the related Debt Service Fund all or any portion of the amounts accumulated therein with regard to debt service on the Bonds to be refunded and will deposit such amounts in such Funds or Accounts as required by the Indenture.

The Commission has covenanted to maintain an amount equal to one twelfth of the annual aggregate Debt Service for all series of Bonds related to Facility No. 1 on deposit in the Earnings Account of the Debt Service Fund for Facility No. 1. Such amount shall be maintained in excess of the required deposits to the Series 1998 Account and the Series 1995A Account of the Debt Service Fund for Facility No. 1 to provide for debt service on the related series of Bonds.

#### **Debt Service Reserve Fund**

**Upon the date of issuance of the 1998 Bonds, the Debt Service Reserve Fund will no longer be required to be funded for any of the outstanding Bonds.** The Commission may, at its option, establish a Debt Service Reserve Fund for all Series of Bonds related to a particular Facility in the related Supplemental Indenture. The amount of the Debt Service Reserve Requirement shall therefor be established in such Supplemental Indenture.

Under the Indenture, the Trustee will disburse the amounts held in the Debt Service Reserve Fund as follows:

(a) On the twentieth day of any month prior to an Interest Payment Date for Bonds related to a particular Facility, the Trustee will apply from the related Debt Service Reserve Fund to the related Debt Service Fund such amounts as may be necessary to make up any deficiencies in the amounts required to be maintained in such Fund under the Indenture;

(b) At any time that the amounts in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement (after giving effect to any Reserve Fund Credit Facility deposited in such Fund pursuant to the Indenture), the Trustee will transfer such excess (i) upon the written request and direction of the Commission, to the related Funds and Accounts under the Indenture, to the extent of any deficiencies therein and in the priority established for distribution of moneys under the Revenue Fund, or (ii) in the absence of any Commission written request and at the discretion of the Trustee, to the related Debt Service Fund, subject to the satisfaction of any Reimbursement Obligation from such excess as described below; and

(c) In the event that Bonds are to be refunded, the Trustee will deposit any amounts in excess of any Debt Service Reserve Requirement to such related Funds and Accounts as the Commission may direct in writing.

The priority of the withdrawals from the Debt Service Reserve Fund of cash, securities or Reserve Fund Credit Facilities is determined in accordance with the Indenture.

Under the Indenture, the Commission may use a Reserve Fund Credit Facility to satisfy, in whole or in part, the Debt Service Reserve Requirement for the benefit of the bondholders of the related Bonds. If such a deposit causes the amount held in the Debt Service Reserve Fund to exceed

the related Debt Service Reserve Requirement, the excess will be transferred as described in subparagraph (b) above. The Reserve Fund Credit Facility must be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from the related Debt Service Fund and applied to the payment of principal of or interest on any such Bonds and such withdrawal cannot be met by amounts on deposit in the Debt Service Reserve Fund. An issuer providing the Reserve Fund Credit Facility in the form of any other similar obligation must have the qualifications set forth in a Supplemental Indenture authorizing the issuance of a series of Bonds.

In the event that any amount is applied from any Debt Service Reserve Fund to cure any deficiency in the related Debt Service Fund, the Commission is required under the Indenture to restore the amount in the Debt Service Reserve Fund to the related Debt Service Reserve Requirement within six months from the date on which moneys were so applied to cure such deficiency.

### **Replacement Reserve Fund**

Under the Indenture, upon the instruction or request of the Commission pursuant to the Indenture, the Trustee will disburse amounts in the Replacement Reserve Fund for a particular Facility as follows:

- (a) For payment of the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility;
- (b) To a related Fund or Account to the extent of any deficiencies therein; and
- (c) To the General Fund, any amounts in excess of that needed to pay costs of major nonrecurring maintenance and repairs for such Facility.

### **General Fund**

Under the Indenture, upon delivery of written instructions executed by an authorized officer of the Commission, the Trustee will disburse amounts in the General Fund from time to time as follows and in the following order of priority.

First, to the other Funds and Accounts under the Indenture, prorata to the extent of any deficiencies therein and in the priority established for distribution of moneys under the Revenue Fund.

Second, to the Commission, (a) for the payment of Commission expenses related to a Facility, (b) to the payment of any refund to any person, including the Department of Administration, of any rents, rates, fees or charges received by the Commission from such

person for use and occupancy of the Facility, or (c) for any lawful purpose of the Commission as determined by resolution thereof.

### **Rebate Fund**

Under the Indenture, the Trustee is required to pay to the Rebate Fund related to a particular Facility such amounts, if any, from such Funds and Accounts under the Indenture as are required pursuant to the related Rebate Memorandum. Amounts in the Rebate Fund, other than any excess amounts which may be authorized to be transferred to a related Fund or Account under the Indenture at the written direction of an authorized officer of the Commission, will be held by the Trustee for payment to the United States government as required pursuant to such Rebate Memorandum. The Trustee will make such payments or otherwise disburse amounts in the Rebate Fund at such times and in such amounts as may be required pursuant to such Rebate Memorandum.

### **Investment of Funds**

Under the Indenture, moneys held in the Revenue Funds, the Operation and Maintenance Funds, the Debt Service Funds, the Replacement Reserve Funds, the General Fund and the Rebate Funds will be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities, as defined under the Indenture, maturing not later than such times as may be necessary to provide moneys for payments required to be made from such Funds. Moneys held in the Debt Service Reserve Funds will be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities maturing not later than seven years from the date of investment of such amounts; provided the foregoing limitation will not apply to any period during which the Investment Securities are being valued using the fair market value method. Moneys held in the Construction Fund under the Indenture may be invested and reinvested by the Trustee in Investment Securities maturing not later than such times as may be necessary to provide moneys when needed to provide payments from such Fund (as indicated in a written draw-down schedule provided by the Commission). The Trustee will make all such investments of moneys held by it in accordance with written instructions from an authorized officer of the Commission or, in the absence of such written instructions, in securities described in clause (xiii) of the definition of Investment Securities until instructed in writing by the Commission to invest otherwise.

Earnings on any moneys or investments in all Funds, Accounts and Subaccounts established under the Indenture will be retained in the respective Funds, Accounts and Subaccounts for the purposes therein provided, all subject to the provisions of the Indenture regarding the Rebate Fund, except that earnings on all Accounts of the Construction Fund related to a Facility (except an Interest Account) and the Debt Service Reserve Fund will be deposited in the Project Account prior to the Commencement Date for the Facility. Notwithstanding the foregoing, supplemental indentures providing for the issuance of Additional Bonds may provide alternative directions for the deposit of investment earnings prior to the Projected Commencement Date for the Facility being financed from the proceeds thereof.

In computing the amount in any Fund, Account or Subaccount created under the Indenture for any purpose provided in the Indenture, obligations purchased as an investment of moneys in such Fund, Account or Subaccount will be valued at the amortized cost of such obligations, determined in accordance with the Indenture; provided that an authorized officer of the Commission, in its discretion, may direct the Trustee in writing to use the fair market value method of valuation from time to time.

### **Annual Budgets**

On or before the first day of August of each year while Bonds are outstanding, the Commission shall prepare and file with the Trustee its proposed annual budget forecast for the ensuing two Fiscal Years which shall set forth in reasonable detail with respect to each Facility (i) the estimated Gross Revenues for such Fiscal Years, (ii) to the extent the Commission is obligated, under the Use and Occupancy Agreements or otherwise, to operate, maintain or repair such Facility or any portion thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the related Use and Occupancy Agreement or otherwise for a Facility or such portion thereof for such Fiscal Years, (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering a Facility, (iv) the estimated Debt Service for such Fiscal Years, (v) the required deposits, if any, to the Debt Service Reserve Fund for such Fiscal Years and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. In the event the proposed annual budget forecast for any Fiscal Year forecasts a deficiency in the Net Revenues resulting from the funds appropriated for such Fiscal Year to the Department of Administration or any other Agency for the payment of the Department of Administration's or other Agency's obligations under the Use and Occupancy Agreements, the Commission shall cause a budget request to be made at the next session of the General Assembly to cure such deficiency.

As soon as available after the end of each legislative session of the State during an odd-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budgets adopted by the Commission for the ensuing two Fiscal Years for each Facility which shall set forth in reasonable detail (i) the estimated Gross Revenues for such Fiscal Years, (ii) to the extent the Commission is obligated, under the related Use and Occupancy Agreement or otherwise, to operate, maintain or repair the Facility or any portions thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the related Use and Occupancy Agreement or otherwise for such Facility or such portion thereof for such Fiscal Years, (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering such Facility, (iv) the estimated Debt Service for such Fiscal Years, (v) the required deposits, if any, to the Debt Service Reserve Fund for such Fiscal Years and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. As soon as possible after the end of each legislative session of the State during an even-numbered year, but in

any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budget adopted by the Commission for the ensuing Fiscal Year which shall set forth those matters required by the preceding sentence for such Fiscal Year. The Commission also may at any time adopt an amended annual budget for the remainder of the then current Fiscal Year.

### **Annual Audits**

As soon as available after the end of each Fiscal Year, so long as any Bonds are outstanding, the Commission will file with the Trustee the general purpose financial statements of the Commission as prepared for such Fiscal Year, together with the accompanying opinion of the State Board of Accounts. If such statements are audited by an independent auditor, the Commission will file such financial statements, together with the auditor's report, with the Trustee within one hundred twenty days after the end of such Fiscal Year.

### **Operation, Maintenance and Repair of the Facilities**

The Indenture requires that the Commission must at all times operate or cause the Facilities to be operated properly and in an efficient and economical manner, and will maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and will from time to time make, or use its best efforts to cause to be made, all necessary or proper repairs, replacements and improvements so that at all times the operation of a Facility may be properly and advantageously conducted.

### **Rents, Rates, Fees and Charges**

The Commission will fix, establish and maintain rents, rates, fees, and charges that are reasonably expected to yield Gross Revenues during each Fiscal Year in which a Facility, or any portion thereof, is available for use and occupancy in an amount which, together with any available amounts in the Construction Fund, is equal to at least (a) in the event the Commission is obligated under the Use and Occupancy Agreement or otherwise to operate, maintain, or repair such Facility or any portion thereof at its expense, 100% of the expenses of operation, maintenance and repair to be incurred as an expense of the Commission (under the respective Use and Occupancy Agreement or otherwise) for such Fiscal Year for the Facility or any portion thereof, (b) 100% of the expenses to be incurred by the Commission in managing and administering the Facility or such portion thereof and in complying with the covenants of the Indenture, (c) 100% of the Debt Service under the Indenture for such Fiscal Year, (d) 100% of the required deposits, if any, to any related Debt Service Reserve Fund during such Fiscal Year, and (e) one-sixth of such amount as annually estimated by the Commission, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility or such portion thereof to be incurred through the end of the sixth Fiscal Year commencing on the first day of such

Fiscal Year. Notwithstanding the foregoing, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to the use and occupancy of the related Facility, without affecting its right to use and occupy any other Facility under any other Use and Occupancy Agreement. In such event, the Commission, in fixing rents, rates and fees and charges on a Facility which continues to be leased to the Department of Administration, must not establish rents, rates, fees or charges for such Facility in excess of such Facility's allocable share of the amounts described in clauses (b), (c) and (d) hereof, determined by taking into account the amount of the Bond proceeds used to finance the Facility under the Indenture. Rents, fees and charges for such Facility related to the amounts described in clauses (a) and (e) will be based on the costs directly related to each Facility.

The Indenture provides that, to the extent permitted by law and subject to the provisions of the Indenture including, without limitation, the Commission's tax covenants, the Commission may lease a portion of a Facility to an entity which is not an agency of the State. Also, to the extent permitted by law, the Commission will enforce the payment of any and all accounts owing to the Commission by reason of its ownership and operation of a Facility.

The Commission will use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration and each State agency obligated to pay rentals on account of the leasing by the Department of Administration or such agency of space in a Facility pursuant to the Use and Occupancy Agreements moneys sufficient to enable the Commission to comply with its obligations under the Indenture. The Indenture requires that the Use and Occupancy Agreements must provide that the Department of Administration, or any State agency subleasing thereunder, must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Commission to comply with its obligations under the Indenture.

The Indenture provides that, in the event the Department of Administration is required to vacate a Facility or any portions thereof, because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to the terms and provisions of the related Use and Occupancy Agreement or because the Department of Administration elects not to renew such Use and Occupancy Agreement at the end of any term, the Commission will use its best efforts to cause such Facility or such portions thereof to be leased in order to generate moneys sufficient to enable the Commission to comply with its obligations under the Indenture, subject to the requirements for any such leasing under the Indenture. See "Tax Covenants."

The Indenture requires that the Use and Occupancy Agreements must provide that, in the event the General Assembly fails to appropriate funds or funds are not available to pay any sum agreed to be paid for use and occupancy of a Facility or any portions thereof and the Department of Administration is required to vacate such Facility or such portions thereof, the Department of Administration, or any State agency using or occupying such Facility or such portions thereof will not purchase, lease or rent property to perform the same functions as or functions taking the place

of those performed by such Facility or such portions thereof and will not contract for services to perform the same functions as those performed or furnished by such Facility or such portions thereof for a period of two years following such event.

### **Insurance and Completion of Performance**

The Commission will at all times, including all times prior to and after the completion of Acquisition of a Facility, keep or cause to be kept each Facility insured against loss or damage by fire and from other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of the then outstanding Bonds, or (b) 100% of the full replacement cost of such Facility, provided, however, such insurance may contain a reasonable loss deductible clause. In addition, under the Indenture, the Commission will at all times, including all times prior to and after the completion of Acquisition of each Facility, use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to such Facility.

The Indenture requires that the Commission must maintain or cause to be maintained such performance bond or performance insurance with respect to contracts it may enter into for the Acquisition of such Facility as is usually maintained by those Acquiring properties similar to the Facility.

The Commission will at all times maintain or cause to be maintained business interruption loss insurance to insure against loss of projected annual rental income payable pursuant to the Use and Occupancy Agreement, or any other lease of a Facility or any portion thereof, for such time (being at least for a period of twelve months) as use of a Facility or any portion thereof are interrupted by damage or destruction from perils insured against under a standard extended coverage endorsement. Such insurance will also be carried with respect to any portion of a Facility not then occupied pursuant to the respective Use and Occupancy Agreement in an amount equal to the fair rental value of such portions, all as are reasonably necessary to meet its obligations under the Indenture.

The Indenture requires the Commission to use its best efforts to maintain or cause to be maintained any additional or other insurance as it deems necessary or advisable to protect the interests of the Commission and the owners of the Bonds.

Policies or contracts for insurance must under the Indenture, be in a form and with insurers of good standing or with an insurance group or state insurance pool acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission. Performance bonds must be in a form and with an issuer acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission.

If (a) the performance of any contract for the construction of a Facility is not completed in accordance with its terms and (b) in the opinion of an independent registered architect or registered engineer, acceptable to the Trustee, the cost of completion of such performance will not exceed the amount of proceeds from any performance bond or performance insurance to be received by reason of such noncompletion of performance together with other available funds (including without limitation proceeds from any series of Bonds authorized and issued under the Indenture for such purpose), then the Commission will continuously and diligently complete or cause to be completed such performance as expeditiously as possible.

The Indenture provides that if any Facility is damaged or destroyed and in the opinion of an independent registered architect or registered engineer acceptable to the Trustee, (a) the cost of such repair, replacement or reconstruction will not exceed the amount of insurance proceeds to be received by reason of such damage or destruction and other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under the Indenture for such purpose), and (b) such repair, replacement or reconstruction can be completed within the period covered by the rental value, insurance or other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under the Indenture for such purpose), the Commission must, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted repair, reconstruction or replacement thereof, provided, if such conditions are not met in the event of total or substantial destruction of a Facility, the Commission will request the Trustee to redeem the allocable Bonds from the available proceeds pursuant to the extraordinary redemption provisions of the Indenture. See "DESCRIPTION OF THE 1998 Bonds--Redemption--Extraordinary Redemption." The Indenture provides that within one hundred twenty days after either the noncompletion of performance of any contract for Acquisition of any Facility or the occurrence of an event of damage or destruction to any Facility, the Commission must deliver to the Department of Administration and the Trustee the appropriate written opinion of the architect or engineer referred to in the preceding sentences stating whether the required conditions have been satisfied. The proceeds from any performance bond or performance insurance paid on account of noncompletion of performance and the proceeds from any insurance paid on account of such damage or destruction (other than any business interruption loss insurance) will be deposited with and held by the Trustee in the Construction Fund under the Indenture and made available for, and to the extent necessary be applied to, the costs of such completion of performance or such repair, reconstruction or replacement. Pending such application, such proceeds may be invested by the Trustee in Investment Securities which mature not later than such times as may be necessary to provide moneys when needed to pay such costs.

Interest earned on such investments will be deposited in the Revenue Fund under the Indenture. If the Commission notifies the Trustee that the proceeds from insurance paid on account of damage or destruction will be applied to redeem Bonds in accordance with the terms of the Indenture, then such proceeds will be applied by the Trustee in accordance with the Indenture. Otherwise, such proceeds shall be applied to the cost of repair, reconstruction or replacement as described above. If proceeds are held in the Construction Fund for the costs of completing performance or repair, reconstruction or replacement, the Commission will notify the Trustee of

completion of performance or of costs of the completion of the repair, reconstruction or replacement in writing. The Trustee will apply such balance of funds in the Construction Fund to remedy the deficiencies in any of the Funds and Accounts established under the Indenture, and if there exists no such deficiency or if such proceeds exceed the amount necessary to remedy such deficiency, such proceeds or the excess thereof, as the case may be, will be applied to any lawful purpose of the Commission. In the event the Commission has failed to complete such performance or failed to repair, replace or reconstruct any damaged or destroyed Facility or has abandoned or failed to prosecute such completion or action diligently, the Trustee may, in its discretion, complete such performance or make such repairs, replacements or reconstructions and enter upon the premises of the Facility to the extent necessary to accomplish such purpose. However, the Trustee will not be obligated to complete or cause the completion of such performance or make any such repairs, replacements or reconstructions unless (a) it has been requested to do so by the holders of not less than ten percent in aggregate principal amount of all Bonds then outstanding and (b) it has been indemnified, to its satisfaction, against any loss, damage or expense which it might thereby incur.

All proceeds of business interruption loss insurance maintained and received under the Indenture will be paid into the related Revenue Fund under the Indenture.

#### **Additional Bonds**

One or more series of Additional Bonds may be issued, without limitation as to amount and at any time, for the purpose of paying Acquisition Costs of a Facility or refinancing an obligation (other than Bonds) used to pay such cost. Such Additional Bonds issued for a particular Facility will be authenticated and delivered by the Bond Registrar only upon receipt by the Trustee (in addition to certain other documents required by the Indenture) of:

(a) a certificate of an Authorized Officer of the Commission stating that the related Use and Occupancy Agreement for the Facility will provide sufficient Gross Revenues to provide for the payment with respect to all related series of Bonds;

(i) to the extent the Commission is obligated, under a Use and Occupancy Agreement or otherwise, to operate, maintain or repair such Facility or any portion thereof at its expense the expenses of operation, maintenance and repair incurred and expected to be incurred as an expense of the Commission pursuant to such Use and Occupancy Agreement or otherwise during each such Fiscal Year (or applicable portions thereof) for such Facility or any portion thereof including expenses incurred by the Commission in managing and administering such Facility or portion thereof;

(ii) the Debt Service for all related series of Bonds;

(iii) the required deposits, if any, to the Debt Service Reserve Fund related to such Facility; and

(iv) to the extent authorized or permitted by the Act, for each such Fiscal Year, one-sixth (1/6) of such amount as the Commission annually estimates is required, together with amounts on deposit in the Replacement Reserve Fund under the Indenture on the first day of each such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility incurred and expected to be incurred through the end of the sixth Fiscal Year commencing on the first day of each such Fiscal Year (or applicable portions thereof);

(b) a certificate of the Chairman or Secretary of the Commission stating that:

(i) sufficient funds will be paid into the Debt Service Fund or the Construction Fund related to such Facility to provide for the Debt Service for the related series of Bonds to be issued until such time as rental rates providing sufficient Net Revenues will begin to be paid to the Commission pursuant to the respective Use and Occupancy Agreement; and

(ii) sufficient funds will be paid into the Debt Service Reserve Fund to provide for the Debt Service Reserve Requirement related to such Facility.

If an Additional Facility to be financed or refinanced from the proposed series of Additional Bonds is not included in an existing Use and Occupancy Agreement, then the Commission is required to deliver to the Trustee prior to the issuance of such Additional Bonds an executed copy of an Additional Use and Occupancy Agreement relating to the Additional Facility to be financed from such Bonds, certified by the Chairman of the Commission. Such Additional Use and Occupancy Agreement must contain provisions for the term and termination of such Additional Use and Occupancy Agreement, the payment and determination of rentals for the related Facility, and the maintenance of insurance which are materially similar to those contained in the existing Use and Occupancy Agreements. If the Additional Bonds are proposed to be issued to complete, improve, renovate, refurbish or alter a Facility covered by an existing Use and Occupancy Agreement, such Use and Occupancy Agreement will be amended to reflect the issuance of such series of Additional Bonds.

### **Refunding Bonds**

One or more series of Refunding Bonds may be issued at any time under the Indenture to refund outstanding Bonds or portions of outstanding Bonds of any series or any portion of any series under the Indenture. Refunding Bonds may be issued in a principal amount sufficient, together with other moneys available therefor, to effect such refunding and to make the deposits in the funds and accounts related to the Refunding Bonds of each series that may be authenticated and delivered by

the Bond Registrar for such series only upon receipt by the Trustee, in addition to certain other documents required by the Indenture, of the following:

(a) Instructions satisfactory to the Trustee to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions, subject to the provisions of the Indenture;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding sixty days, instructions satisfactory to the Trustee to make due publication of the notice provided for in the Indenture to the holders of the Bonds being refunded; and

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable redemption price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys will be held by the Trustee or the Paying Agent in a separate account irrevocably in trust for and assigned to the respective holders of the Bonds to be refunded, or (ii) Defeasance Securities, as defined in the Indenture, in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as may be necessary to comply with the provisions of the Indenture, which Defeasance Securities and moneys will be held in trust and used only as provided therein.

#### **Extension of Payment of Bonds**

The Commission will not directly or indirectly extend or assent to the extension of the maturity of any Bonds or the time of payment of any claims for interest by the funding of any Bonds or claims for interest or by any other arrangement and, in case the maturity of any Bonds or the time for payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of moneys held and pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by any Fiduciary, except subject to the prior payment of the principal of all Bonds outstanding, the maturity of which has not been extended, and of such portion of the accrued interest on such Bonds as is not represented by such extended claims for interest. Any issuance of Refunding Bonds by the Commission is not and cannot be deemed to be an extension of the maturity of any other Bonds.

#### **Payment of Taxes and Charges**

The Indenture requires the Commission from time to time to duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, if any, or required payments in lieu thereof, lawfully imposed upon a Facility or upon the rights, revenues, income, receipts and other moneys, securities and funds of the Commission with respect to such Facility when the same become due (including all rights, moneys and other property transferred, assigned

or pledged under the Indenture), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Commission may in good faith contest by proper legal proceedings if the Commission has, in all such cases, set aside on its books reserves deemed adequate with respect thereto.

### **Tax Covenants**

In the Indenture, the Commission agrees that it will make no use of proceeds of any Bonds, which on the date of issuance and delivery are the subject of an opinion of nationally recognized bond counsel that the interest thereon was excludable from gross income for federal income tax purposes under the Code (the "Tax-Exempt Bonds"), or of amounts which may be treated as proceeds thereof, which could cause such Tax-Exempt Bonds to be or become "arbitrage bonds" within the meaning of Section 148 of the Code, or any successor provisions thereto.

The Commission covenants in the Indenture that it will not take any action or fail to take any action with respect to the proceeds of any Bonds or ownership or use of a Facility or any portion thereof that would result in loss of the exclusion from gross income for federal income tax purposes of interest paid on any Tax-Exempt Bonds.

The Indenture requires that the Use and Occupancy Agreements must provide that unless the Commission obtains an opinion of nationally recognized bond counsel to the effect that the lease or sublease of a Facility or any portion thereof to, or a use of a Facility or such portion thereof by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds under the Code, neither the Facility nor such portion thereof will be let or sublet to any person other than a State agency, and neither the Facility nor such portion thereof will be used by any person (natural or otherwise) in a trade or business, except one who is using the Facility or such portion thereof in his or her capacity as an Employee. The Use and Occupancy Agreements must provide that the Commission may enter into a management agreement with the Department of Administration or any State agency to manage a Facility, but shall not enter into a management agreement with any other person (natural or otherwise) in a trade or business unless in the opinion of nationally recognized bond counsel such agreement will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds under the Code.

The Indenture requires the Commission, not later than the first day of the second calendar month after the close of the calendar quarter in which any Tax-Exempt Bonds were issued (or such other time as may be required by the Code or regulations promulgated thereunder), to file a statement with the Internal Revenue Service and the Trustee concerning such Bonds which contains that information required by Section 149 of the Code and any regulations promulgated thereunder.

## **Defaults and Remedies**

If, for any Facility or the Bonds related to such Facility, one or more of the following Events of Default or any additional Event of Default set forth in a Supplemental Indenture related to any such Bonds shall happen:

(a) a default is made in the due and punctual payment of the principal or redemption price of any Bond related to such Facility when and as the same becomes due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(b) a default is made in the due and punctual payment of any installment of interest on any Bond related to such Facility or the unsatisfied balance of any sinking fund installment (except when such sinking fund installment is due on the maturity date of such Bond), when and as such interest installment or sinking fund installment becomes due and payable;

(c) a default is made by the Commission in the performance or observance of any other of the covenants, agreements or conditions in the Indenture related to such Facility or to the Bonds related to a Facility, and such default has continued for a period of sixty days after written notice specifying such default, requiring that it be remedied and stating that such notice is a "Notice of Default" under the Indenture shall have been given to the Commission by the Trustee or to the Commission and the Trustee by the holders of not less than 25% in principal amount of the Bonds related to such Facility outstanding; or

(d) a court having jurisdiction in the premises enters a decree or order providing for relief in respect of the Commission in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Commission for any substantial part of the property of the Commission, or ordering the winding-up or liquidation of its affairs, and such decree or order remains unstayed and in effect for a period of ninety days;

then, and in each and every such case, so long as such event of default has not been remedied, unless the principal of all the Bonds related to such Facility has already become due and payable, the Trustee may or, upon the direction of the holders of not less than 25% in principal amount of such Bonds then outstanding (by notice in writing to the Commission and the Trustee), must declare the principal of all the Bonds related to such Facility then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable; provided, however, the principal of and interest on any series of Bonds may not be declared immediately due and payable without the prior written consent of the provider of a Credit Facility with respect to such series to the extent provided for in the Supplemental Indenture under which such series of Bonds is issued. The right of the Trustee or of the holders of not less than 25% in principal amount of the Bonds related to such Facility

outstanding to make any such declaration, however, is subject to the condition that if, at any time after such declaration, but before such Bonds have matured by their terms, all overdue installments of interest on such Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Commission under the Indenture (except the principal of, and interest accrued since the next preceding interest date on, such Bonds due and payable solely by virtue of such declaration) have either been paid by or for the account of the Commission, or provisions satisfactory to the Trustee have been made for such payment, and all defaults under such Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) have been made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then and in every such case the holders of 25% in principal amount of such Bonds outstanding, by written notice to the Commission and the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee has acted itself, and if there has not been theretofore delivered to such Trustee written direction to the contrary by the holders of 25% in principal amount of such Bonds outstanding, then any such declaration will ipso facto be deemed to be rescinded and any such default will ipso facto be deemed to be annulled, but no such rescission or annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon the occurrence of any event of default, so long as such event of default has not been remedied, and upon the demand of the Trustee, the Commission will account, as if the Commission were the trustee of an express trust for all Net Revenues and other moneys, securities and funds pledged or held under the Indenture for the period stated in the Trustee's demand.

Application of Revenues and Other Moneys After Default. During the continuance of an event of default for Bonds related to a particular Facility, the Trustee will (a) request that the Commission immediately release to the Trustee all Net Revenues related to the Facility then held by the Commission and (b) apply the Trust Estate for such Bonds held by it pursuant to the Indenture (except for the moneys, securities and funds held in the Rebate Fund under the Indenture which will continue to be used for the purpose therein) or received by it pursuant to any right given or action taken under the Indenture as follows and in the following order:

- (i) Expenses of Fiduciaries--to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for such Bonds;
- (ii) Rebate--to the payment of any rebate obligation for such Bonds owed under Section 148 of the Code, to the extent sufficient funds are not available in the Rebate Fund;
- (iii) Principal or Redemption Price and Interest--to the payment of the interest and principal or redemption price then due on such Bonds outstanding, as follows:

(A) unless the principal of all of such Bonds has become or has been declared due and payable,

FIRST: Interest--To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on such Bonds theretofore called for redemption, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: Principal or Redemption Price--To the payment to the persons entitled thereto of the unpaid principal or redemption price of any such Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference;

(B) if the principal of all of such Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal, interest or premium, if any, over the other, or of any installment of interest over any other installment of interest or of any such Bond over any other such Bond or of any series over any other series under the Indenture, ratably, according to the amounts due respectively for principal, interest and premium, if any, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

(iv) Replacement Reserve Expenses--to the payment of the amounts required for reasonable and necessary costs of major non-recurring maintenance, repairs, improvements, equipment or replacements of all the related Facilities necessary in the judgment of the Trustee to prevent a loss of Gross Revenues for all the related Facilities under the Indenture;

(v) Subordinated Indebtedness--to the payment of principal, redemption price and interest then due on subordinated indebtedness of the Commission.

If and whenever all overdue installments of interest on all such Bonds outstanding, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the Commission under the Indenture, including the principal and redemption price of and accrued unpaid interest on all such Bonds which are then payable, have either been paid by or for the account of the Commission, or provision satisfactory to the Trustee has been made for such payment, and all defaults under the Indenture or such Bonds have been made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, the Trustee will pay over to the Commission all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the Indenture to be deposited or pledged, with the Trustee), and thereupon the Commission and the Trustee will be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Commission by the Trustee and no such restoration of the Commission and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Proceeding by the Trustee. Upon the occurrence of an event of default for Bonds related to a particular Facility, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the holders of not less than 25% in principal amount of the related Bonds outstanding, so long as such event of default has not been remedied, must proceed, to protect and enforce its rights and the rights of the holders of the Bonds forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted or any remedy granted under the Act or for an accounting against the Commission as if either were the trustee of an express trust or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel deems to be the most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of such Bonds or the production thereof on the trial or other proceedings, and the Trustee will bring any such suit or proceedings in its name.

The holders of not less than a majority in principal amount of such Bonds at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, that the Trustee will have the right to decline to follow any such direction if (a) the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, (b) the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability, unless such holders agree to indemnify the Trustee against such liability and post bond in respect of such indemnity, or (c) the Trustee in good faith determines that the action or proceeding

so directed would be unjustly prejudicial to the related holders of such Bonds not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee will be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any event of default.

Regardless of the happening of an event of default under the Indenture, the Trustee will have power to, but unless requested in writing by the holders of 25% in principal amount of such Bonds then outstanding, and furnished with reasonable security and indemnity, will be under no obligation to, institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interests of the holders of Bonds outstanding.

Rights and Remedies of Holders of Bonds. No holder of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such holder has previously given to the Trustee written notice of the happening of any event of default and the holders of at least 25% in principal amount of such Bonds related to a particular Facility then outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the Act or to institute such action, suit or proceeding in its own name, and unless such holders have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused to comply with such request for a period of sixty days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more holders of Bonds outstanding will have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all holders of the Bonds outstanding subject only to the provisions respecting extension of payment of such Bonds.

The Indenture requires the Trustee to promptly mail written notice of the occurrence of any event of default related to a particular Facility to each registered owner of related Bonds then outstanding at his address, if any, appearing on the registration books of the Commission.

Notwithstanding anything in the Indenture to the contrary, a default in Bonds related to a particular Facility shall not affect any Bonds related to any other Facility and no such default shall give rise, in and of itself, to a default in any other Bond related to another Facility.

**Nonexclusivity of Remedies.** No remedy conferred upon or reserved to the Trustee or the holders of Bonds outstanding is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given under or existing at law, including under the Act, or in equity or by statute on or after the date of execution and delivery of the Indenture.

**Waiver of Events of Default.** The Indenture provides that no delay or omission of the Trustee or any holder of any Bonds outstanding to exercise any right or power arising upon the happening of an event of default will impair any right or power or will be construed to be a waiver of any such event of default or be an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by Bondholders.

Prior to the declaration of maturity of Bonds as provided in the Indenture, the holders of not less than a majority in aggregate principal amount of the Bonds in Default then outstanding under the Indenture, or their attorneys-in-fact duly authorized, may on behalf of the holders of all of the Bonds outstanding waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds outstanding. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

### **Supplemental Indentures and Amendments**

The Commission may, without the consent of the Trustee or any of the owners of Bonds, enter into any Supplemental Indenture, effective upon certification by the Chairman or Secretary of the Commission and filing with the Trustee, for any one or more of the following purposes:

- (a) To close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidence of indebtedness;
- (b) To add other covenants, agreements, limitations and restrictions to be observed by the Commission which are not contrary to or inconsistent with the Indenture;
- (c) To add additional events of default under the Indenture;
- (d) To authorize a series of Bonds related to a particular Facility or a portion thereof in accordance with the Indenture;
- (e) With the prior written opinion of nationally recognized bond counsel to the effect that to do so will not affect the excludability of interest on any Tax-Exempt Bonds from gross income for federal income tax purposes, to authorize, in accordance with the

Indenture and in compliance with all applicable laws, Bonds of each series to be issued in the form of coupon Bonds registrable as to principal only;

(f) To authorize, in accordance with the Indenture and in compliance with all applicable law, Bonds of any series to be issued in the form of Bonds issued and held in book-entry form on the books of the Commission or any Fiduciary appointed for that purpose by the Commission;

(g) To authorize subordinated indebtedness of the Commission in accordance with the Indenture;

(h) To confirm, as further assurance, any security interest, pledge or assignment under the Indenture of the Trust Estate or of any other real or personal property or other rights, or to add to any security interest, pledge or assignment created or to be created by the Indenture any real or personal property or other rights;

(i) To modify any of the provisions of the Indenture in any other respect whatever; provided that (A) such modification must be, and be expressed to be, effective only after all Bonds of each series outstanding at the date of the adoption of such Supplemental Indenture cease to be outstanding, and (B) such Supplemental Indenture must be specifically referred to in the text of all Bonds of any series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(j) To appoint or remove the Trustee;

(k) To modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;

(l) To modify, amend or supplement the Indenture or any Supplemental Indenture to permit the issuance of Bonds and subordinated indebtedness in the form of debt instruments not then described by the Indenture, including but not limited to debt instruments bearing interest subject to federal income taxation under the Code;

(m) To modify, amend or supplement the Indenture to the extent necessary to enable the Commission to comply with its tax covenants under such Indenture;

(n) To make any other modification or amendment of the Indenture which the Commission determines in good faith will not have a material adverse effect on the interests of the Bondholders; or

(o) To authorize financial products, including, but not limited to, forwards, hedges, swaps, of any kind or description and, in connection therewith, specify and determine such matters and things relative thereto.

In addition, the Commission may, with the consent of the Trustee but without the consent of any of the owners of Bonds, enter into any Supplemental Indenture, effective upon certification by the Chairman or the Secretary of the Commission and filing with the Trustee, for any one or both of the following purposes, if such would not materially adversely affect the interests of Bondholders:

(a) To cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture; or

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

The Indenture provides that any other modification or amendment of the Indenture and of the rights and obligations of the Commission (including without limitation any modification or amendment of the Commission's tax covenants under the Indenture), and of the holders of the Bonds thereunder, in any particular, may be made in accordance with the notice and other requirements of the Indenture by a Supplemental Indenture, with the written consent given as provided in the Indenture (a) of the holders of not less than a majority in principal amount of such Bonds outstanding at the time such consent is given, (b) in case less than all of the several series of such Bonds then outstanding are affected by the modification or amendment, of the holders of not less than a majority in principal amount of such Bonds of each series so affected and outstanding at the time such consent is given, and (c) in case the modification or amendment changes the terms of any sinking fund installment, of the holders of not less than a majority in principal amount of such Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given. Bonds owned or held by or for the account of the Commission under the Funds and Accounts of the Indenture will not be deemed outstanding for purposes of calculating consent or other action by owners of outstanding Bonds. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the holder of such Bond, or reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment or change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. No modification will be deemed effective to change any right or obligation of the Trustee or any other Fiduciary without the written consent of such Fiduciary. A series of Bonds will be deemed to be affected by a modification or amendment of the Indenture if such modification or amendment adversely affects or diminishes the rights of the holders of Bonds of such series. The Trustee has the authority to determine conclusively whether any particular series or maturity of Bonds would be adversely affected by any such modification or amendment.

## **Defeasance**

The Indenture provides that, if the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of all Bonds outstanding the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in such Bonds and in the Indenture, then the pledge of the Trust Estate under the Indenture, and all covenants, agreements and other obligations of the Commission to such Bondholders will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and, upon the request of the Commission, all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries will pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment of principal or redemption price, if applicable, and interest due or to become due on such Bonds not theretofore surrendered for such payment or redemption. If the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of any outstanding Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds will cease to be entitled to any benefit or security under the Indenture, and all covenants, agreements and obligations of the Commission to the holders of such Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Under the Indenture, Bonds issued thereunder will be deemed to have been paid within the meaning and with the effect expressed above if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Commission has given to the Trustee instructions accepted in writing by the Trustee to mail as provided in the Indenture notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Commission or purchased or otherwise acquired by the Commission and delivered to the Trustee prior to the mailing of such notice of redemption) on such date, (b) there have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of Administration of the Treasury of the United States of America) the principal of and the interest on which when due will provide moneys which together with the moneys, if any, on deposit with the Trustee at the same time, are sufficient to pay when due the principal or redemption price, if applicable, and interest due and to become due on such Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Commission has given the Trustee in form satisfactory to it instructions to mail as soon as practicable, a notice to the holders of such Bonds at their last addresses appearing upon the registration books at the close of business on the last business day of the month preceding the month for which notice is mailed that the deposit required by clause (b) above has been made by the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected, subject to the Indenture, to be available for the payment of the principal or redemption price, if applicable, on such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the

Commission or purchased or otherwise acquired by the Commission and delivered to Trustee prior to the mailing of the notice of redemption referred to in clause (a) above).

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**DEFINITIONS**

The following are definitions of certain terms used in this Official Statement:

**"Accounts"** means the accounts created under the Indenture.

**"Accrued Debt Service"** means, as of any date of calculation, an amount equal to the accrued Debt Service on all series of Bonds related to a Facility, calculating the accrued Debt Service with respect to each such series of Bonds at an amount equal to the sum of (a) interest on such Bonds accrued and unpaid to the end of the then current calendar month, (b) Principal Installments for such Bonds due and unpaid and (c) that portion of the Principal Installment for such Bonds next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

**"Acquire"** or **"Acquisition"** means to purchase, erect, build, construct, reconstruct, renovate, refurbish, replace, extend, better, equip, develop, rehabilitate, remodel, relocate, enlarge, expand, make additions to, alter, modify, change, furnish, repair or improve a Facility, or to complete any of the foregoing, in each case to the extent same constitutes a capital expenditure under applicable law.

**"Acquisition Costs"** means all reasonable and necessary costs incurred in the Acquisition of any Facility, which costs may include but are not limited to the cost of Acquiring real property and any buildings thereon including relocation costs and payments for options, deposits or contracts to purchase properties; the cost of site preparation, demolition and development; any expenses relating to the issuance of the Bonds incurred by the Commission, including but not limited to, private placement fees, underwriting fees, original issue discounts, rating agency fees, printing costs and other necessary fees; fees in connection with the planning, execution and financing of the Facility, such as those of financial consultants, engineers, bond counsel, other special counsel, real estate counselors, appraisers, architectural historians and other such consultants, employees and agents as may be required in the judgment of the Commission; the cost of studies, surveys, plans, permits, insurance, interest, financing, taxes and assessments, and other operating and carrying costs during the Acquisition of the Facility; the cost of Acquiring the Facility; the cost of land improvements such as landscaping and off-site improvements; any initial expense, charge or cost payable upon issuance of the obligations with respect to the Acquisition of the Facility relating to or incurred in connection with the remarketing of obligations, such as remarketing agent or indexing agent fees or for credit enhancements or liquidity features, including, but not limited to, letter of credit fees, whether direct-pay or standby, swap agent fees and similar expenses or fees; the initial cost of such other items, including premiums for indemnity and surety bonds, premiums on insurance, including, but not limited to, municipal bond insurance, debt service reserve insurance or sureties and rental payment insurance, and fees and expenses of trustees, depositories, registrars, book entry registrars and paying

agents for obligations issued under the Act; to the extent permitted by the Act, Debt Service on Bonds from the date thereof to the time when Debt Service is to be paid solely from the income and revenues of the Facility financed with such Bonds and any amounts necessary to establish or fund any reserves required in connection with such obligations; the reimbursement of all moneys advanced or supplied to or borrowed by the Commission, including without limitation payments under any Credit Note, for the payment of any item of cost of the Facility; and such other expenses as may be necessary, proper or convenient to the Acquisition of the Facility under applicable law, the financing thereof under the Act and the placing of the same in use.

"Act" means the provisions of Indiana Code 4-13.5, as amended and supplemented from time to time and any successor provisions of law.

"Additional Bonds" means one or more series of additional Bonds issued under a Supplemental Indenture pursuant to the Indenture.

"Additional Facility" means a building, a structure or any portion of any of the foregoing, authorized to be financed or refinanced by the Commission, financed with Bonds issued under the Indenture and owned by the Commission and leased to the Department of Administration or a State agency pursuant to an Additional Use and Occupancy Agreement.

"Additional Use and Occupancy Agreement" means any use and occupancy agreement by and between the Commission and Department of Administration or any other State agency which provides the terms and conditions of use and occupancy of any Additional Facility or any portion thereof, including any amendment or supplement thereto or renewal thereof.

"Bondholder" or "Holder of Bonds" or "Owner of Bonds" or any similar term means the registered owner of any Bond outstanding under the Indenture.

"Bond" or "Bonds" means any bonds, notes or other evidence of obligations of the Commission issued, authenticated and delivered pursuant to the Indenture, including the 1991 Bonds, the 1995A Bonds, the 1995B Bonds, the 1998 Bonds and any and all Additional Bonds and Refunding Bonds.

"Bond Registrar" means NBD Bank, N.A. (successor by merger to INB National Bank), a national banking association, as initial bond registrar for the 1998 Bonds and any bond registrar appointed for any Series of Bonds, and its successor or successors hereafter appointed in the manner provided under the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended or supplemented, and any successor provisions of law, and any applicable Treasury regulations promulgated thereunder.

"Commencement Date" means, for any Facility, or any portion thereof, the date on which a completion certificate for the Facility, or such portion thereof, is accepted by a representative of the Department.

"Commission" means the Indiana State Office Building Commission, a body corporate and politic, organized and existing under the Act and its successors.

"Counterparty" means NBD Bank, N.A., as counterparty to the Undertaking.

"Credit Facility" means an irrevocable letter of credit, line of credit, insurance policy or other credit facility issued by a municipal bond insurer, financial institution, trust company, insurance company or association which provides for the payment of principal of or interest on any Series of Bonds or portion thereof.

"Credit Note" means any line of credit or loan contract note or notes or other obligations (not including the Bonds or any other revenue bonds of the Commission) executed by the Commission pursuant to any credit or other agreement to which the Commission is a party.

"Debt Service" for any period means, as of any date of calculation and with respect to any outstanding series of Bonds, an amount equal to the sum of (a) interest accruing during such period on Bonds of such series, except to the extent that such interest is to be paid from deposits in the applicable Debt Service Fund under the Indenture from proceeds of the Bonds of such series or a related series, including amounts, if any, transferred from the applicable Construction Fund, and (b) that portion of each Principal Installment for such series of Bonds of which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such series of Bonds (or, if (i) there is no such preceding Principal Installment due date or (ii) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such series, whichever date is later), all subject to particular provisions of the Indenture in the case of any series of put, capital appreciation or convertible capital appreciation Bonds. Such interest and Principal Installments will be calculated on the assumption that no Bonds outstanding at the date of such calculation will cease to be outstanding, except by reason of the payment of each Principal Installment when due.

"Debt Service Reserve Requirement" means the amount designated as such, if any, in the Supplemental Indenture providing therefor.

"Defeasance Securities" means and includes only (a) any direct and general obligations of, or any obligations the timely payment of principal and interest of which is unconditionally guaranteed by, the United States of America, which obligations are not redeemable prior to maturity other than at the option of the holders thereof, (b) obligations of, or unconditionally guaranteed as to the timely payment of principal and interest by, the Federal National Mortgage Association, which

obligations are not redeemable prior to maturity other than at the option of the holder thereof, (c) any obligations of any state or political subdivision of a state (collectively, "Municipal Bonds") that are (i) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the owners of the Municipal Bonds and (ii) not redeemable prior to maturity other than at the option of the holder thereof, (d) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System, which certificates of ownership are not redeemable prior to maturity other than at the option of the holder thereof, and (e) the interest component of obligations issued by the Resolution Funding Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof.

"Department of Administration" means the Department of Administration and its successors.

"Department of Correction" means the Department of Correction and its successors.

"Dissemination Agent" means a dissemination agent designated in any Dissemination Agreement.

"Dissemination Agreement" means a Dissemination Agreement between the Commission and the Dissemination Agent, including any amendments or supplements thereto.

"Facility or Facilities" means Facility No. 1, Facility No. 2 or any Additional Facilities.

"Facility No. 1" means the maximum security correctional facility and medium security correctional facility (which are situated on the real property in Sullivan County, Indiana described in the Use and Occupancy Agreement No. 1) Acquired by the Commission, and any other buildings, structures and improvements in connection therewith and appurtenances thereto any time hereafter Acquired. Acquisition of Facility No. 1 was financed with proceeds of the 1991 Bonds and 1995A Bonds.

"Facility No. 2" means the correctional facility for women (which is situated on the real property in Parke County, Indiana described in the Use and Occupancy Agreement No. 2), Acquired by the Commission, and any other buildings, structures and improvements in connection therewith and appurtenances thereto any time hereafter Acquired. Acquisition of Facility No. 2 was financed with the proceeds of the 1995B Bonds.

"Fiduciary" means the Trustee, the Bond Registrar, the Paying Agent, the Depositories or any or all of them, as may be appropriate.

"First Supplemental Use and Occupancy Agreement" means the First Supplemental Use and Occupancy Agreement between the Commission, as lessor, and the Department of Administration,

as lessee, dated as of July 1, 1995, supplementing and amending the Original Use and Occupancy Agreement No. 1.

**"Fiscal Year"** means the 12-month period commencing at 12:01 a.m. on July 1 of each year and ending at 12:01 a.m. that succeeding July 1 or such other fiscal year of the State as may be mandated by law.

**"Fitch"** means Fitch IBCA, Inc., and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized rating agency as the Commission may from time to time designate.

**"Funds"** means each or all of the funds created under the Indenture.

**"Gross Revenues"** means for each Facility all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of such Facility or any portion thereof pursuant to the Use and Occupancy Agreement or otherwise, or from the sale, transfer or conveyance (whether voluntary or involuntary) of such Facility or any portion thereof; and shall include any rental payments received with respect to such Facility or any portion thereof from whatever sources (including, but not limited to, business interruption loss insurance) and receipts therefrom.

**"Interest Payment Date"** means: (i) as to the 1998 Bonds, each January 1 and July 1, commencing July 1, 1998, and (ii) as to any other series of Bonds, the interest payment dates set forth in the Supplemental Indenture related thereto; provided that if such day is not a business day, the next succeeding business day.

**"Investment Securities"** means any of the following securities, if and to the extent the same are at the time legal for investment of the Commission's funds:

(i) Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) of this definition to the extent unconditionally guaranteed by the United States of America.

(ii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of this definition, which

fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on bonds or other obligations of the character described in clause (i) of this definition which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate.

(iii) Bonds, debentures or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America.

(iv) Obligations issued by the Resolution Funding Corporation.

(v) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America.

(vi) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase hereunder such obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

(vii) Obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which shall be rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

(viii) Obligations of the Commission payable from and secured by a pledge of the income and revenues of a facility, other than the Facility, payable pursuant to a use and occupancy agreement.

(ix) Certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States

of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under such Indenture, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Fitch, Moody's Investors Service or Standard & Poor's Rating Group, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Fitch, Moody's Investors Service or Standard & Poor's Rating Group.

(x) Certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) of this definition, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Indenture.

(xi) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any of the 50 largest banks in the United States of America which are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

(xii) Commercial paper, other than that issued by bank holding companies, rated at the date of investment at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

(xiii) Written repurchase contracts, reverse repurchase contracts or securities lending agreements (collateralized by cash or securities) with any securities dealer that is registered as a dealer under the Securities Exchange Act of 1934, as amended, and is monitored by, reports to and is recognized as a primary dealer by the Federal Reserve Bank of New York, having a net capital of at least \$200,000,000, for obligations of, or unconditionally guaranteed as to the payment of principal and interest by, the United States of America or obligations of, or unconditionally guaranteed as to the payment of principal and interest by, any Bank for Cooperatives, any Federal Intermediate Credit Bank, any Federal Home Loan Bank, the Export-Import Bank of the United States, any Federal Land Bank, the Farmers Home Administration, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Financing Bank, Federal Home Loan Mortgage Corporation or any other agency or instrumentality of, or corporation

wholly owned by, the United States of America, provided (a) that at the time of entering into any such contract or agreement (A) the market value as determined by such primary dealer (the "Market Value") of the obligations subject to any such repurchase contract is at least equal to the purchase price specified in such contract, (B) the purchase price specified in any such reverse repurchase contract is at least equal to the Market Value of the obligations subject to such contract, or (C) the Market Value of the collateral for any such securities lending agreement is at least equal to the Market Value of the securities lent, and (b) such obligations or collateral are held by the Trustee under the Indenture or by a depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such obligations or collateral for the benefit of the Commission.

(xiv) Shares of an investment company organized under the Investment Company Act of 1940, as amended, which either (a) is rated at least AAA by Fitch, Aaa by Moody's Investors Service or AAA by Standard & Poor's Rating Group or (b) invests its assets exclusively in obligations of the type described in clause (i) of this definition, provided that the average maturity of such obligations shall not exceed 90 days.

(xv) Any agreement for an investment of money with a Qualified Institution (an "Investment Agreement"). All such investments (or the debt of the Qualified Institution with respect to any Investment Agreement) must be rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group, at the time such Investment Agreement is entered into. For purposes of this clause (xv), "Qualified Institution" means a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, federal or state branch of a foreign bank pursuant to the International Banking Act of 1978, as amended, a savings and loan association, an insurance company or association or any other entity, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by such institution, are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

In lieu of the investment of moneys in obligations described in the first paragraph of this clause (xv), moneys held under the Indenture may, to the extent permitted by law, be invested in interest-bearing time deposits or certificates of deposit which are: (a) issued by banks, trust companies, savings banks and savings and loan associations whose debt obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group, or, with respect to certificates of deposit maturing in less than one year, whose short-term debt obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or

A+ by Standard & Poor's Rating Group; or (b) fully insured by the Federal Deposit Insurance Corporation.

(xvi) Any obligations rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Rating Group.

"Moody's Investors Service" means Moody's Investors Service, Inc. and its successors and assigns, provided that in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"NRMSIR" means a nationally recognized municipal securities information repository, recognized as such by the SEC.

"Net Revenues" for any period for each Facility shall mean the Gross Revenues related to such Facility during such period less expenses of operation, maintenance and repair for such Facility or any portion thereof required to be paid by the Commission pursuant to such Facility's respective Use and Occupancy Agreement or otherwise during such period, all as calculated in accordance with generally accepted accounting principles and the Indenture.

"1991 Bonds" means the Commission's Correctional Facilities Program Revenue Bonds, Series 1991, issued under the Indenture.

"1995A Bonds" means the Commission's Correctional Facilities Program Revenue Bonds, Series 1995A, issued under the Indenture.

"1995B Bonds" means the Commission's Correctional Facilities Program Revenue Bonds, Series 1995B, issued under the Indenture.

"1998 Bonds" means the Commission's Facilities Revenue Refunding Bonds, Series 1998 A, issued under the Indenture.

"Original Use and Occupancy Agreement No. 1" means the Use and Occupancy Agreement between the Commission, as lessor, and the Department of Administration, as lessee, dated as of November 1, 1991, with respect to the use and occupancy by the State and its agencies and departments of Facility No. 1 or any portion thereof.

"Paying Agent" means NBD Bank, N.A. (as successor by merger to INB National Bank), a national banking association, as initial paying agent for the 1998 Bonds and any paying agent appointed for any Series of Bonds, and any successors or assigns hereafter appointed in the manner provided under the Indenture.

**"Pledged Funds"** means (i) for a Facility and all related Series of Bonds, the Construction Fund, the Debt Service Fund, any Debt Service Reserve Fund, and the Replacement Reserve Fund and all Accounts and Subaccounts therein created for such Facility and (ii) for all Facilities and all Series of Bonds, the General Fund and all Accounts and Subaccounts therein.

**"Principal Installment"** means, as of any date of calculation and with respect to any series of Bonds, so long as any Bonds of such series are outstanding, (a) the principal amount of Bonds of such series including the principal amount of any Put Bonds tendered for payment and purchased in lieu of redemption prior to the redemption date thereof due (or so tendered for payment and not purchased in lieu of redemption) on a certain future date for which no sinking fund installments have been established, or (b) the unsatisfied balance (determined as provided in the Indenture) of any sinking fund installments due on a certain future date for Bonds of such series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of Bonds of such series on such future date in a principal amount equal to the unsatisfied balance of such sinking fund installments, or (c) if such future dates coincide as to different Bonds of such series, the sum of such principal amount of Bonds of such series and of such unsatisfied balance of sinking fund installments due on such future date plus such applicable redemption premiums, if any.

**"Rebate Memorandum"** means the Memorandum on Compliance with Rebate obligations of the Code delivered in connection with the issuance of each Series of Bonds, as amended and supplemented.

**"Record Date"** means, with respect to any Interest Payment Date, the fifteenth day of the calendar month next preceding such Interest Payment Date.

**"Refunding Bonds"** means all Bonds, of one or more series, issued, authenticated and delivered pursuant to the Indenture to refund any series or portion of series of any Bonds outstanding under the Indenture or portions of such Bonds.

**"Reimbursement Obligation"** means any obligation of the Commission to reimburse the provider of any Credit Facility or Reserve Fund Credit Facility for a series of Bonds for any payment made by such provider thereunder pursuant to, or any other obligation of the Commission to repay any amounts (including, but not limited to, fees or additional interest) to such provider pursuant to, any reimbursement agreement.

**"Rule"** means SEC Rule 15c2-12, as amended.

**"SEC"** means the Securities and Exchange Commission.

**"Standard & Poor's Ratings Group"** means Standard & Poor's Ratings Group and its successors and assigns provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating

agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"State" means the State of Indiana.

"Subaccounts" means, as the case may be, each or all the Subaccounts created under the Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture adopted by the Commission.

"Tax-Exempt Bonds" means any Bonds which on the date of original issuance and delivery were the subject of an opinion of nationally recognized bond counsel that the interest thereon was excludable from gross income for federal income tax purposes under the Code.

"Trust Estate" means for each Facility and all related Series of Bonds (a) the proceeds of the sale of all such Series of Bonds, (b) the Net Revenues related to such Facility and (c) the Pledged Funds, including the investments, if any, thereof and the same are pledged and assigned under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Trustee" means NBD Bank, N.A. (successor by merger to INB National Bank), a national banking association, or any successor trustee under the Indenture.

"Undertaking" means the Continuing Disclosure Undertaking Agreement between the Commission and the Counterparty dated the date of delivery of the 1998 Bonds, including any amendments or supplements thereto.

"Use and Occupancy Agreement No. 1" means the Original Use and Occupancy Agreement No. 1, as supplemented by the First Supplemental Use and Occupancy Agreement.

"Use and Occupancy Agreement No. 2" means the Use and Occupancy Agreement No. 2 by and between the Commission, as lessor, and the Department of Administration, as lessee, dated as of September 15, 1995, with respect to the use and occupancy by the State and its agencies and departments of Facility No. 2 or any portion thereof.

"Use or Occupancy Agreement" means Use and Occupancy Agreement No. 1, Use and Occupancy Agreement No. 2 or any Additional Use and Occupancy Agreement, including any amendments or supplements thereto or renewals thereof.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

Indiana State Office Building Commission  
Indianapolis, Indiana

Re: Indiana State Office Building Commission  
Facilities Revenue Refunding Bonds, Series 1998A  
Total Issue \$93,020,000

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana State Office Building Commission ("Commission") of its \$93,020,000 aggregate principal amount of Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 1998A ("Bonds") under and pursuant to an Amended and Restated Trust Indenture dated as of January 1, 1998, which amends and restates the Trust Indenture dated as of November 1, 1991 as heretofore supplemented and amended and a Series 1998A Supplemental Trust Indenture, dated as of January 1, 1998 (collectively, the "Indenture"), between the Commission and NBD Bank, N.A. (successor by merger to INB National Bank), as trustee ("Trustee").

We have examined the law and a certified transcript of proceedings of the Commission relating to the authorization, issuance and sale of the Bonds; the authorization and execution of the Use and Occupancy Agreement, dated as of November 1, 1991 (the "Original Use and Occupancy Agreement"), between the Commission and the Department of Administration (the "Department") of the State of Indiana (the "State"), as supplemented by a First Supplemental Use and Occupancy Agreement, dated as of July 1, 1995 ("First Supplemental Use and Occupancy Agreement"), between the Commission and the Department (the Original Use and Occupancy Agreement and the First Supplemental Use and Occupancy Agreement are referred to collectively as the "Use and Occupancy Agreement"); and the authorization and execution of the Indenture; and such other papers as we deem necessary to render this opinion. We have also examined an opinion of the Attorney General of the State. We have relied upon the certified transcript of proceedings and certificates of public

officials, including the tax covenants and representations of the Commission and the Department ("Tax Covenants"), and we have not undertaken to verify any facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, as follows:

1. The Commission is a public body corporate and politic, validly existing under Indiana Code 4-13.5 ("Act"), with full power and authority to execute and deliver the Indenture and the Use and Occupancy Agreement and to issue and sell the Bonds.

2. The Bonds have been duly authorized, executed, issued and delivered by the Commission and constitute legal, valid and binding obligations of the Commission, enforceable in accordance with the terms. The principal of, interest on and premium, if any, on the Bonds are payable solely from and secured exclusively by a pledge of the Trust Estate (as defined in the Indenture). The Bonds do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

3. The Indenture has been duly authorized, executed and delivered by the Commission and constitutes the legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. The Indenture creates the valid pledge and assignment which it purports to create of the Trust Estate (as defined in the Indenture).

4. The Use and Occupancy Agreement has been duly authorized, executed and delivered by the Commission and constitutes the legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. We note, however, that under the Use and Occupancy Agreement the Department is not obligated to continue to pay for the use and occupancy but is instead required to vacate Facility No. 1 (as defined in the Indenture) if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust and unreasonable, as provided in the Act, and the Department is required to vacate Facility No. 1 if funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due, as provided in the Act.

5. Under statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

6. Under the federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excluded from gross income for purposes of federal income taxation under

Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Commission and the Department with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issuance.

In rendering the opinion set forth in paragraph 6 above, we have relied upon a report of Crowe, Chizek and Company, independent certified public accountants, dated the date hereof as to the accuracy of certain mathematical computations contained therein.

It is to be understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that the enforcement of the Bonds, the Indenture and the Use and Occupancy Agreement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be further understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

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